

No. 92-1123-CFX Title: Izumi Seimitsu Kogyo Kabushiki Kaisha, Petitioner  
v.  
U.S. Philips Corporation, et al.

Docketed: Court: United States Court of Appeals for  
December 30, 1992 the Federal Circuit

Entry Date Proceedings and Orders

Dec 30 1992 Petition for writ of certiorari filed.  
Jan 28 1993 Brief of respondents U.S. Philips Corporation, et al. in  
opposition filed.  
Feb 3 1993 DISTRIBUTED. February 19, 1993  
Feb 8 1993 Reply brief of petitioner filed.  
Feb 22 1993 Petition GRANTED.  
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Mar 26 1993 Order extending time to file brief of petitioner on the  
merits until April 22, 1993.  
Apr 22 1993 Joint appendix filed.  
Apr 22 1993 Brief of petitioner Izumi Seimitsu Kogyo Kabushiki Kaisha  
filed.  
Apr 22 1993 Brief amicus curiae of Trial Lawyers for Public Justice  
filed.  
Apr 22 1993 Motion of Sears, Roebuck & Co. for leave to file a brief  
as amicus curiae filed.  
May 7 1993 Motion of the Acting Solicitor General for leave to  
participate in oral argument as amicus curiae and for  
divided argument filed.  
May 10 1993 Opposition of respondents to motion of Sears, Roebuck & Co.  
for leave to file a brief as amicus curiae filed.  
May 21 1993 Brief of respondents U.S. Philips Corporation, et al. filed.  
May 24 1993 Motion of Sears, Roebuck & Co. for leave to file a brief  
as amicus curiae GRANTED.  
May 24 1993 Motion of the Acting Solicitor General for leave to  
participate in oral argument as amicus curiae and for  
divided argument GRANTED.  
May 24 1993 Brief amicus curiae of Product Liability Advisory Council,  
Inc. filed.  
May 25 1993 Brief amicus curiae of United States filed.  
Jun 21 1993 Reply brief of petitioner filed.  
Aug 6 1993 CIRCULATED.  
Aug 16 1993 SET FOR ARGUMENT TUESDAY. OCTOBER 12, 1993. (1ST CASE).  
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92-1123  
No.

Supreme Court, U.S.

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IN THE  
Supreme Court of the United States

OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

v.

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION, AND  
N.V. PHILIPS GLOEILAMPENFABRIEKEN

and

WINDMERE CORPORATION,

*Respondents.*

PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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December 30, 1992



**QUESTION PRESENTED**

Should the United States Courts of Appeals routinely vacate district court final judgments at the parties' request when cases are settled while on appeal?

## TABLE OF CONTENTS

	PAGE
QUESTION PRESENTED . . . . .	i
TABLE OF AUTHORITIES . . . . .	iv
STATEMENT PURSUANT TO RULE 29.1 . . . .	vii
OPINIONS BELOW . . . . .	1
JURISDICTION . . . . .	2
CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED . . . . .	2
STATEMENT OF THE CASE . . . . .	2
REASONS FOR GRANTING THE PETITION	
A. The Petition Raises An Important Issue . . . . .	6
B. The Federal Circuit's Practice is in Conflict With the Practice of Other Circuit Courts . . . . .	10
C. The Federal Circuit's Practice Conflicts With Precedent of this Court, and the Court Should Grant the Petition in Supervision of the Federal Circuit . . . .	12
D. Vacatur Here Is Leading Directly to Relitigation In the Courts of a Previously Decided Issue and Izumi Should Be Permitted to Challenge Vacatur . . . . .	14
CONCLUSION . . . . .	16
APPENDIX:	
Order of the United States Court of Appeals For the Federal Circuit (July 31, 1992) . . . .	A1

Order of Judgment of the United States District Court For the Southern District of Florida (April 6, 1990) . . . . .	A7
Judgment Regarding Unfair Competition Claims of the United States District Court For the Southern District of Florida (May 4, 1990) . . . . .	A8
Order of the United States Court of Appeals For the Federal Circuit Denying Izumi's Petition for Rehearing and Suggestion for Rehearing in Banc (October 2, 1992) . . . . .	A9
Indemnity Agreement Between Windmere and Izumi dated February 20, 1984 . . . . .	A11
Declaration of William L. Androlia dated May 15, 1992 . . . . .	A13
Settlement Agreement Between North American Philips Corporation and Windmere dated May 6, 1992 . . . . .	A17
Memorandum Opinion of the United States District Court For the Northern District of Illinois (October 5, 1990) . . . . .	A22
Joint Motion to Dismiss the Appeal As Moot and Vacate the Judgments Below dated May 11, 1992 . . . . .	A31
Memorandum Opinion of the United States District Court For the Northern District of Illinois (October 13, 1992) . . . . .	A36
Order of the United States Court of Appeals For the Federal Circuit Granting Permission to Appeal (December 10, 1992) . . . . .	A46

## TABLE OF AUTHORITIES

CASES	PAGES
<i>Banks v. Chicago Grain Trimmers Ass'n, Inc.</i> , 390 U.S. 459 (1968), <i>cert. granted</i> , 389 U.S. 813 (1967) . . . . .	15
<i>Best Lock Corp. v. Schlage Lock Co.</i> , 413 F.2d 1195 (C.C.P.A. 1969) . . . . .	7
<i>Blonder-Tongue Labs., Inc. v. University of Illinois Found.</i> , 402 U.S. 313 (1971) . . . . .	7, 8
<i>Bonito Boats v. Thunder Craft Boats</i> , 489 U.S. 141 (1989) . . . . .	7
<i>City Gas Co. of Florida v. Consolidated Gas Co. of Florida</i> , ___ U.S. ___, 111 S. Ct. 1300 (1991) . . . . .	5, 13
<i>Clarendon Ltd. v. Nu-West Indus., Inc.</i> , 936 F.2d 127 (3d Cir. 1991) . . . . .	5, 11
<i>Duke Power Co. v. Greenwood County</i> , 299 U.S. 259 (1936) . . . . .	5
<i>In re United States</i> , 927 F.2d 626 (D.C. Cir. 1991) . . . . .	5, 11
<i>Karcher v. May</i> , 484 U.S. 72 (1987) . . . . .	12, 13, 14
<i>Matter of Memorial Hosp. of Iowa County, Inc.</i> , 862 F.2d 1299 (7th Cir. 1988) . . . . .	5, 10, 11, 14
<i>Morton Int'l, Inc. v. Cardinal Chem. Co.</i> , No. 6:83-889-OK, (D.S.C. 1991), <i>aff'd in part, vacated in part</i> , 959 F.2d 948 (Fed. Cir.) <i>reh'g denied</i> , 1992 U.S. App. LEXIS 7580 (Fed. Cir.), <i>reh'g, in banc, denied</i> , 1992 U.S. App. LEXIS 10067 (Fed. Cir.), dissent from denial of suggestions for rehearing in banc, 967 F.2d 1571 (Fed. Cir. 1992) (Nies, C.J.) . . . . .	9, 10, 11

<i>National Union Fire Ins. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) . . . . .	5, 10, 11, 14
<i>Nestle Co., Inc. v. Chester's Mkt., Inc.</i> , 756 F.2d 280 (2d Cir. 1985) . . . . .	5
<i>Park N' Fly, Inc. v. Dollar Park And Fly, Inc.</i> , 469 U.S. 189 (1985) . . . . .	7
<i>Ringsby Truck Lines, Inc. v. Western Conference of Teamsters</i> , 686 F.2d 720 (9th Cir. 1982) . . . .	10, 11
<i>United Auto Workers v. Scofield</i> , 382 U.S. 205 (1965) . . . . .	15
<i>United States v. Munsingwear, Inc.</i> , 340 U.S. 36 (1950) . . . . .	5, 12, 14
<i>Wang Labs., Inc. v. Toshiba Corp.</i> , 793 F.Supp. 676 (E.D.Va. 1992) . . . . .	7

#### STATUTES AND RULES

15 U.S.C. § 1125(a) . . . . .	2
28 U.S.C. § 1254(1) . . . . .	2, 15
Fed. R. Civ. P. 24(a) . . . . .	15

#### OTHER SOURCES

Terence Dungworth & Nicholas M. Pace, Statistical Overview of Civil Litig. in the Federal Courts (1990) . . . . .	8
Jill E. Fisch, Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur, 76 Cornell L. Rev. 589 (1991) . . . . .	6
Louis Harris Assocs., Procedural Reform of the Civil Justice System (March 1989, commissioned by The Found. for Change, Inc.) . . . . .	8

James S. Kakalik, Costs of the Civil Justice System (1983) . . . . .	8
Civil Justice Reform Act of 1990, S. Rep. No. 416, 101st Cong., 2d Sess. (1990), reprinted in 1990 U.S.C.C.A.N. 6802 . . . . .	8
Budget Dev. Branch, Admin. Office of the United States Courts, Daily Cost of a Civil Jury Trial (February 12, 1992) (on file with Budget Dev. Branch) . . . . .	9
Federal Courts Study Comm., Report of the Federal Courts Study Comm., Admin. Office of the United States Courts (April 2, 1990) . . . . .	8
Note, Avoiding Issue Preclusion: Settlement Conditioned on the Vacatur of Entered Judgments, 96 Yale L.J. 860, 867 (1987) . . . .	6

**STATEMENT PURSUANT TO RULE 29.1**

Izumi Seimitsu Kogyo Kabushiki Kaisha has no parent or subsidiary Companies (other than wholly owned subsidiaries).

No. \_\_\_\_\_

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

v.

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION, AND  
N.V. PHILIPS GLOEILAMPENFABRIEKEN

and

WINDMERE CORPORATION,  
*Respondents.*

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PETITION FOR WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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Petitioner Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") respectfully petitions for a writ of certiorari to review the judgment of the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") in this case.

**OPINIONS BELOW**

The opinion of the Court of Appeals for the Federal Circuit is reported at 971 F.2d 728 (Fed. Cir. 1992)(A1-6). The order of the Court of Appeals denying Izumi's petition for reconsideration and suggestion for rehearing in banc is unpublished (A9-10). The judgment of the district court following trial also is unpublished (A7).



## JURISDICTION

The Court of Appeals denied Izumi's petition for reconsideration on October 2, 1992. This Court has jurisdiction under 28 U.S.C. § 1254(1).

## CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED

This petition does not involve interpretation of any constitutional provision, treaty or statute.

## STATEMENT OF THE CASE

Izumi manufactures rotary electric razors and has sold them to distributors in the United States, including Windmere and Sears. Suit in the U.S. District Court for the Southern District of Florida involved the claim of the Philips companies<sup>1</sup> ("Philips") against Windmere for unfair competition under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), concerning the configuration of Philips' Norelco® rotary razor (trade dress claim), Philips' patent infringement claim against Izumi and Windmere, and Windmere's antitrust counterclaim against Philips. An indemnity agreement between Izumi and Windmere required Izumi to pay for Windmere's defense of the trade dress infringement and patent claims, and Izumi did so (A14). Windmere undertook the expense of prosecuting its antitrust counterclaim.

Following a trial, remand and a second trial, the Florida district court entered judgment in Windmere's favor on both Philips' trade dress claim and Windmere's antitrust counterclaim A7-8).<sup>2</sup> In particular, the jury found that Philips

<sup>1</sup> U.S. Philips Corporation, North American Philips Corporation and N.V. Philips Gloeilampenfabrieken.

<sup>2</sup> In the first trial, Philips prevailed on its patent infringement claim against Izumi, but was awarded only \$6,500.00 in damages. Izumi did not appeal that judgment.

had failed to establish that its trade dress was non-functional, and, hence, did not possess trade dress rights. On its antitrust counterclaim, Windmere was awarded \$89,644,257 in trebled damages, plus attorneys' fees, interest and costs (A7). Philips appealed both verdicts to the Federal Circuit.

On May 6, 1992, after the appeal had been fully briefed, Philips and Windmere entered into a Settlement Agreement (A17-21). Under that Agreement, the parties agreed to exchange general releases. Philips further agreed to pay Windmere \$57 million, and Windmere agreed to join Philips in asking the Federal Circuit to vacate the Florida district court's judgments. Indeed, one of the Settlement Agreement's principal objectives was to nullify the Florida judgment:

It is the intention of all parties to this Settlement Agreement that the Judgment, the opinion and the jury interrogatories on [Philips'] unfair competition claim and Windmere's antitrust claim will be of no force and effect and shall have no precedential or other value, including, without limitation, any effect under the doctrines of collateral estoppel or res judicata.

(A18)

Philips had far more than an academic interest in vacating the Florida judgment through its settlement with Windmere. In 1985, while the Florida action was pending in the district court, Philips brought a similar action for patent infringement and unfair competition against Izumi and another of its distributors, Sears, Roebuck & Co. ("Sears"), in the United States District Court for the Northern District of Illinois ("the Illinois district court"). Following the second jury trial in Florida, Philips' unfair competition claim against Sears in Illinois was held to be barred by collateral estoppel (A30). Thus, Philips clearly sought, through settlement, to eradicate the Florida judgments and thus eliminate its res judicata and collateral estoppel effects in Illinois.

On May 11, 1992, Philips and Windmere jointly moved to dismiss the Federal Circuit appeal as moot and to vacate the Florida judgments ("Joint Motion to Vacate") (A31-35). Fearing that, following vacatur, Philips would seek to revive its unfair competition claims in the Illinois action, Izumi attempted to oppose the Joint Motion to Vacate. However, despite Izumi's active and substantial involvement in the defense of Philips' unfair competition claim against its distributor and indemnitee, Windmere, and despite Izumi's obvious and direct interest in preserving the finality of the Florida judgments, the Federal Circuit held that Izumi did not have standing to oppose the Joint Motion to Vacate as a party to the original district court action, as an affected third party, or as an intervenor (A2-5).

Until the May 6, 1992 settlement agreement between Philips and Windmere, Izumi's interest in defending Philips' unfair competition claim directed against Izumi manufactured razors had been protected by Windmere's defense at trial (which Izumi had fully funded and had the right to exercise sole control) (A11). Nonetheless, the Federal Circuit faulted Izumi for not intervening earlier, and rejected as a basis for intervention Izumi's interest in ensuring that its razors could continue to be sold without interference from Philips:

We do not discern in Izumi's financial support of Windmere the authority to intervene in this court.... Any financial or commercial interest Izumi might have in the unfair competition claim does not confer standing as a party, on the posture of this case.

(A4)

Although it denied Izumi standing to oppose vacatur or intervene in the proceedings, the Federal Circuit addressed the merits of vacatur. The Federal Circuit recognized that at least four other circuit courts of appeals have declined to vacate judgments merely because parties had settled their disputes

(A5).<sup>3</sup> Nonetheless, the court followed its "general rule" of vacating judgments following settlement.<sup>4</sup> Citing this Court's decisions in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950); *Duke Power Co. v. Greenwood County*, 299 U.S. 259 (1936); and *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, \_\_\_ U.S. \_\_\_, 111 S. Ct. 1300 (1991), the Federal Circuit held that vacatur was appropriate because all claims on appeal had been rendered moot by settlement. Moreover, even though settlement had expressly not been conditioned on the court granting the motion to vacate, the court further stated: "The parties... are entitled to rely on our precedent" (A6). Izumi petitioned the Federal Circuit for reconsideration and suggested rehearing in banc on October 2, 1992. Both the petition and suggestion were denied (A9).

As a postscript to the Federal Circuit vacatur, Philips moved the Illinois district court to reinstate Philips' unfair competition claim against Sears, arguing that the vacated Florida judgments should no longer have collateral estoppel effect. The Illinois court agreed and reinstated the claim (A36-45).<sup>5</sup>

<sup>3</sup> E.g., *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3d Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991); *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988); *National Union Fire Ins. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989). The Federal Circuit is joined by the Second Circuit in routinely vacating final judgments following settlement by the parties. See *Nestle Co., Inc. v. Chester's Mkt., Inc.*, 756 F.2d 280 (2d Cir. 1985).

<sup>4</sup> Although conceding that vacatur following settlement is its "general rule," the Federal Circuit attempted to qualify its decision by stating: "We do not hold that vacatur must always be granted, whatever the circumstances" (A6). However, in view of its refusal even to entertain Izumi's opposition to vacatur, it is difficult to imagine a scenario where the Court would not automatically grant vacatur following settlement.

<sup>5</sup> The Illinois district court certified the issue for appeal to the Federal Circuit. That appeal is pending (A46-49).



## REASONS FOR GRANTING THE PETITION

### A. The Petition Raises An Important Issue

This petition should be granted because it raises an issue of importance to the administration of justice which is the subject of a clear-cut conflict among the circuit courts of appeals. The issue is whether the Federal Circuit's practice of routinely vacating district court final judgments at the parties' request when a case is settled during the pendency of the appeal is proper, even where, as here, a third party affected by the vacatur opposes it. This practice permits unsuccessful litigants to avoid the preclusive affects of final judgments, and transforms the federal courts into instruments for furthering the agenda of private parties.

While the Federal Circuit may desire settlement of appeals, vacatur creates the potential for repeated litigation of issues that would not be retried if the district court judgment were allowed to stand. Where a second lawsuit raising the decided issue is already pending, the Federal Circuit's practice disposes of the adverse judgment so that a losing party such as Philips can seek a second trial on the issue. Allowing private parties to obtain vacatur on demand and to thereby erase judgments that have been entered after careful deliberation by courts and juries has profound implication for the public interest in maintaining finality of judgments. Indeed, scholars have criticized the practice.<sup>6</sup>

<sup>6</sup> Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 Cornell L. Rev. 589 (1991); Note, *Avoiding Issue Preclusion: Settlement Conditioned on the Vacatur of Entered Judgments*, 96 Yale L.J. 860, 867 (1987) ("[c]ircumventing preclusion by vacating existing judgments threatens the public interests in finality of judgments, judicial economy, legitimacy of the legal system, and consistency").

The interest of justice is particularly affected when the claims revived through a vacatur are steeped in the public interest, as is the case where a patent or trademark claim is involved. *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313 (1971); *Park N' Fly, Inc. v. Dollar Park And Fly, Inc.*, 469 U.S. 189 (1985). When a product design is unpatented and legally functional, everyone has the right to use the design. *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141 (1989); *Best Lock Corp. v. Schlage Lock Co.* 413 F.2d 1195 (C.C.P.A. 1969). Thus, under the Federal Circuit's practice, even though a district court may enter final judgment that a patent or trademark is invalid, full and fair competition could be inhibited by fear that such judgment can later be nullified by private agreements. Recently, the district court in *Wang Labs., Inc. v. Toshiba Corp.*, 793 F.Supp. 676, 678 (E.D.Va. 1992), expressed its concern that vacating a finding of patent invalidity without reviewing the merits at the request of parties who settle the case while the appeal is pending may result in an invalid patent being "foisted off on the public and left to distort the market."

The importance of the issue of relitigation of previously decided issues is highlighted by this Court's opinion in *Blonder-Tongue*, in which the Court held that a plaintiff is estopped from reasserting a patent held invalid after a full and fair trial. In reaching its decision on estoppel, the Court reasoned that:

Permitting repeated litigation of the same issue as long as the supply of unrelated defendants holds out reflects either the aura of the gaming table or "a lack of discipline and of disinterestedness on the part of the lower courts, hardly a worthy or wise basis for fashioning rules of procedure."

402 U.S. at 329, (quoting *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180, 185 (1952)).

The Court also noted the unfairness to the defendant faced with having to litigate an issue already decided:

In any lawsuit where a defendant . . . is forced to present a complete defense on the merits to a claim which the plaintiff has fully litigated and lost in a prior action, there is an arguable misallocation of resources. To the extent the defendant in the second suit may not win by asserting, without contradiction, that the plaintiff had fully and fairly, but unsuccessfully, litigated the same claim in the prior suit, the defendant's time and money are diverted from alternative uses — productive or otherwise — to relitigation of a decided issue.

*Id.*

The Court's 1971 *Blonder-Tongue* assessment that a plaintiff's ability to relitigate decided issues burdens both the judicial system and future parties which must defend against plaintiff's revived claims is still correct today. If anything, the high cost of litigation to the respective parties has become a widespread concern.<sup>7</sup> Moreover, the burden on the judicial system of repeated litigation of issues has become an even more important factor as both the volume<sup>8</sup> and the cost<sup>9</sup> of litigation

<sup>7</sup> See generally Louis Harris Assocs., *Procedural Reform of the Civil Justice System*, iv, vi (March 1989, commissioned by The Found. for Change, Inc.) (transaction costs and delay are problems of "moderate to major proportion" and will continue to increase); Terence Dungworth & Nicholas M. Pace, *Statistical Overview of Civil Litig. in the Federal Courts* (1990); James S. Kakalik, *Costs of the Civil Justice System* (1983).

<sup>8</sup> The current case load crisis and its impact is well recognized. See, e.g., Federal Courts Study Comm., *Report of the Federal Courts Study Comm.*, Admin. Office of the United States Courts (April 2, 1990); Civil Justice Reform Act of 1990, S. Rep. No. 416, 101st Cong., 2d Sess. (1990), reprinted in 1990 U.S.C.C.A.N. 6802.

<sup>9</sup> Each day of a civil jury trial has been determined to cost the district court over \$1600 per day without a jury and over \$2700 a day with a jury.

in the federal courts have soared. The Federal Circuit's practice adds to the burden on the district courts by permitting relitigation after substantial court time has already been spent, as it was here, on complex antitrust and unfair competition issues.

Moreover, the practice of routinely granting vacatur of district court judgments following settlement transforms judicial decisions into negotiable commodities, thereby potentially eroding the public's respect for the judicial system, especially where, as here, there is another pending litigation in which the decided issue is again being raised. Although ostensibly justified as a means of achieving judicial economy by encouraging settlement, the rule that allows parties to obtain vacatur on demand may actually have the opposite effect. Such a rule may encourage the parties to avoid early settlement in favor of litigating matters through final judgment, secure in the knowledge that an unfavorable result can be erased through a post-judgment settlement.

It is especially important that this Court provide guidance to the Federal Circuit in the area of vacatur of district court judgments because of the Federal Circuit's exclusive jurisdiction in patent cases. The Court has already recognized the need for such guidance in granting the petition for certiorari in *Morton Int'l, Inc. v. Cardinal Chem. Co.*<sup>10</sup>, No. 92-114, on October 5, 1992. The pending *Cardinal* case, scheduled for hearing in February 1993, involves the different, but related, Federal Circuit practice of routinely vacating judgments of patent invalidity upon determination that the patent is not infringed because of

Budget Dev. Branch, Admin. Office of the United States Courts, *Daily Cost of a Civil Jury Trial* (February 12, 1992) (on file with Budget Dev. Branch).

<sup>10</sup> *Morton Int'l, Inc. v. Cardinal Chem. Co.*, No. 6:83-889-OK, (D.S.C. 1991), *aff'd in part, vacated in part*, 959 F.2d 948 (Fed. Cir.), *reh'g denied*, 1992 U.S. App. LEXIS 7580 (Fed. Cir.), *reh'g, in banc, denied*, 1992 U.S. App. LEXIS 10067 (Fed. Cir.), dissent from denial of suggestions for rehearing in banc, 967 F.2d 1571 (Fed. Cir. 1992) (Nies, C.J.).



the Federal Circuit's perception that a finding of noninfringement "moots" the dispute between the parties. Likewise, the Federal Circuit's practice of vacating district court judgments is based on the Federal Circuit's perception that settlement "moots" the dispute between the parties.

In both the *Cardinal* and present situations, the effect of the Federal Circuit's practice is to eradicate a district court judgment reached after jury or bench trial, and therefore to create the opportunity for the unsuccessful plaintiff to try again before a different jury and a different court, as Philips seeks to do in Illinois after the adverse judgment against it in Florida.

For these reasons, it is evident that the Federal Circuit's vacatur practice presents an important issue of judicial procedure affecting the entire judicial system and the public interest, just as is its vacatur practice applied in the *Cardinal* case now before the Court.

#### **B. The Federal Circuit's Practice is in Conflict With the Practice of Other Circuit Courts**

As the Federal Circuit acknowledges, its general rule permitting vacatur on demand conflicts with the decisions of other courts of appeals.<sup>11</sup> The approach to vacatur adopted by the Federal Circuit (and by the Second Circuit as well) has been forcefully rejected by the Seventh Circuit. In *Matter of Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), the court held that, as a general rule, requests to vacate following settlement should be denied. The court emphasized that a judicial decision is a public act which cannot be swept away by private agreement:

<sup>11</sup> See, e.g., *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988); *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982) and *National Union Fire Ins. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989).

When a clash between genuine adversaries produces a precedent, however, the judicial system ought not allow the social value of that precedent, created at cost to the public and other litigants, to be a bargaining chip in the process of settlement. The precedent, a public act of a public official, is not the parties' property.... If parties want to avoid stare decisis and preclusive effects, they need only settle before the district court renders a decision, an outcome our approach encourages.

862 F.2d at 1302.

Other circuits have followed the Seventh Circuit in refusing to automatically vacate final judgments at the parties' request following settlement. See *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3d Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991).

The Ninth Circuit has declined to vacate a final judgment when doing so would compromise the rights of third parties. In *National Union Fire Insurance Co. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989), the court reaffirmed the legitimate interest of third parties in the preclusive effects of final judgments. The court refused to vacate a judgment adverse to National Union where National Union had similar actions pending against third parties who had intervened in the motion to vacate for the express purpose of protecting that judgment. In *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982), the court declined to adopt an absolute rule either prohibiting or permitting vacatur. Instead, the court balanced "the competing values of finality of judgment and right to relitigation of unreviewed disputes," 686 F.2d at 722, and declined to vacate a judgment that had already been given collateral estoppel effect in a second action.

There is thus a clear-cut conflict among the circuits regarding whether vacatur should be routinely granted following set-

tlement. Under the present state of the law, whether or not a party is able to eradicate unfavorable final judgments through settlement depends on such variables as where their case was tried, or whether the Federal Circuit's jurisdiction has been invoked by the presence of a patent claim. Review by this Court is thus necessary to bring about uniformity among the circuits regarding this important issue.

**C. The Federal Circuit's Practice Conflicts With Precedent of this Court, and the Court Should Grant The Petition in Supervision of the Federal Circuit**

The Federal Circuit's practice of vacating district court judgments at the request of parties settling the appeal is based on a misperception and misapplication of the decision of this Court in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), and conflicts with the Court's decision in *Karcher v. May*, 484 U.S. 72 (1987). The Federal Circuit has interpreted *Munsingwear* as announcing a "mootness" doctrine under which a voluntary settlement between parties to an appeal moots the controversy between them even though final judgment has been entered by the district court. The Court should grant the petition so that the application of the doctrine of mootness to post-judgment settlements can be clarified and so that guidance can be provided to the Federal Circuit, as well as the other circuit courts of appeal, as to the proper application of mootness.

*Munsingwear* did not involve a motion to vacate. The *Munsingwear* appeal concerned proper pricing for a regulated product and the controversy became moot when the product was deregulated. 340 U.S. at 37. Significantly, the mootness involved in *Munsingwear* was caused by an action not attributable to the parties. In that context, the Court noted that vacatur is proper "to prevent a judgment, unreviewable because of mootness, from spawning any legal consequences." *Id.* at 41. The justification for the Court's statement was the reluctance to bind

a party based on a prior judgment when the party has been foreclosed from challenging the judgment on appeal.

In *Karcher*, the Court made clear that the mootness justifying vacatur after appeal was mootness arising from "happenstance" beyond the parties' control. *Karcher* involved a challenge to a New Jersey statute requiring a moment of silence prior to the start of the school day. The statute was defended by the then-presiding speaker of the New Jersey assembly and the president of the state senate ("the appellants"). 484 U.S. at 75. The district court declared the statute unconstitutional and the court of appeals affirmed. *Id.* at 75-76. Although the legislators lost their posts as presiding officers shortly after the decision of the court of appeals, they nonetheless sought review of that decision in this Court. The new presiding officers, however, informed the Court that they desired, on behalf of the legislature, to withdraw the appeal. *Id.* at 76. On these facts, the Court dismissed the appeal for want of jurisdiction, but refused to apply *Munsingwear* and vacate the lower court judgments because "th[e] controversy did not become moot due to circumstances unattributable to any of the parties." *Id.* at 83.

The Federal Circuit did not discuss or cite *Karcher*, but instead relied on *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, \_\_\_ U.S. \_\_\_, 111 S.Ct. 1300 (1991), as supporting its practice of vacating judgments following settlement. *City Gas* is a memorandum case in which the Court granted certiorari, vacated the judgment and remanded to the court of appeals with direction to dismiss. Apparently, this action was prompted by a settlement reached while the petition for certiorari was pending. However, this Court's memorandum opinion does not discuss the nature of the settlement, whether any controversy remained as in the present case, or the *Karcher* analysis. *City Gas* is neither an express nor implicit endorsement of the Federal Circuit's practice of vacating judgments following settlement. Nor is it a retrenchment from the principle explained in *Mun-*



*singwear* and *Karcher* that vacatur is justified when a case becomes moot due to happenstance, rather than by actions attributable to the parties.

The antitrust and trade dress rights issues that were the subjects of the Florida district court final judgment in the present case were not rendered moot by "happenstance" or by "actions unattributable to the parties." Rather, whatever mootness has resulted from the Philips/Windmere settlement is mootness manufactured by the parties for the purposes of expunging a holding unfavorable to Philips and reviving Philips' ability to assert its trade dress claim against Izumi and its customers. As explained by *Karcher*, the *Munsingwear* decision does not support the Federal Circuit's practice of vacating district court judgments as moot simply because the parties voluntarily settle the case on appeal. Moreover, where, as here, the settlement which formed the basis for vacatur was unconditional, mootness is not a proper justification for vacating the district court judgment. Such a case is no more moot than in any other circumstance where a party chooses to abandon its claim or to forego its appeal. See *National Union*, 891 F.2d at 766; *Memorial Hosp.*, 862 F.2d at 1301.

**D. Vacatur Here Is Leading Directly to Relitigation In the Courts of a Previously Decided Issue and Izumi Should Be Permitted to Challenge Vacatur**

Izumi's concern that vacatur will lead to wasteful and duplicative relitigation is far from hypothetical or speculative. Philips has already successfully reinstated a claim of trade dress infringement against Izumi's manufactured razors that previously had been held barred by the recently vacated Florida judgment. Accordingly, this case presents the unusual circumstance wherein a third party has an immediate and direct interest in challenging the propriety of granting vacatur following settlement.<sup>12</sup>

<sup>12</sup> Ordinarily, when parties to a litigation settle their disputes following judgment and jointly seek vacatur, no third party has a realized, present

Under the present circumstances, the Federal Circuit should have held that Izumi was entitled to intervene in the appeal for the purpose of opposing vacatur.<sup>13</sup> Accordingly, Izumi is entitled under 28 U.S.C. § 1254(1) to seek review of the Federal Circuits' holding that Izumi lacked standing to challenge the joint motion to vacate. See e.g., *United Auto Workers v. Scofield*, 382 U.S. 205 (1965); *Banks v. Chicago Grain Trimmers Ass'n, Inc.*, 390 U.S. 459 (1968), *cert. granted*, 389 U.S. 813 (1967) (Petitioner granted leave to petition for certiorari as an intervenor, where petitioner was not a party to appellate court proceeding but appellate decision adversely affected petitioner's interest.)

Izumi's interest in the transaction underlying the judgment below — the sale of Izumi-manufactured razors — is direct, substantial and compelling. It is further clear that Izumi's interests, while fully protected throughout the defense of Philips' unfair competition claim, were abandoned when Windmere reached a financial agreement on its own with Philips, and joined in the Joint Motion to Vacate the district court judgment.

Finally, Izumi's motion to oppose vacatur was timely; it sought to intervene promptly following the filing of the Joint

interest in challenging vacatur. Moreover, where such affected third parties assert their interests, other cases have allowed intervention. See *National Union*, 891 F.2d at 764 (non-parties who stood to benefit from a final judgment's preclusive effect were permitted to intervene to oppose vacatur).

<sup>13</sup> Cf. Fed. R. Civ. P. 24(a), which provides in relevant part:

**Intervention As Of Right.** Upon timely application, anyone shall be permitted to intervene in an action... (2) When the applicant claims an interest relating to the property or transaction which is the subject of the action and the applicant is so situated that the disposition of the action may as a practical matter impair or impede the applicant's ability to protect that interest, unless the applicant's interest is adequately represented by existing parties.

Motion to Vacate. The Federal Circuit failed to recognize properly that Izumi's unique role and interest in this litigation provides it standing to intervene for the purpose of opposing vacatur.

### CONCLUSION

For the reasons stated, a writ of certiorari should issue to review the judgment of United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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GARRETT & DUNNER  
1300 I Street, N.W.  
Washington, D.C. 20005-3315  
(202) 408-4000

Counsel for Petitioner Izumi  
Seimitsu Kogyo Kabushiki Kaisha

Of Counsel:

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### UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

U.S. PHILIPS CORPORATION,  
NORTH AMERICAN PHILIPS CORPORATION  
and N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
*Plaintiffs-Appellants,*

v.

WINDMERE CORPORATION and  
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,<sup>1</sup>  
*Defendants-Appellees.*

Before NEWMAN, *Circuit Judge*, FRIEDMAN, *Senior Circuit Judge*, and MAYER, *Circuit Judge*.

Newman, *Circuit Judge*

### ORDER

On joint motion filed by U.S. Philips Corp., North American Philips Corp. and M.V. Philips Gloeilampenfabrieken (together herein "Philips") and Windmere Corporation, to enter settlement agreement, dismiss appeal, and vacate judgments. Izumi Seimitsu Kogyo Kabushiki Kaisha (Izumi) opposes the joint motion to dismiss and vacate the judgments. We grant the motion.

### The Proceedings

Suit was brought by Philips against Windmere and Izumi in the United States District Court for the Southern District of Florida, based on the sale by Windmere, a Florida corporation, of certain rotary electric shavers supplied by Izumi, a Japanese

<sup>1</sup> Uncorrected caption. Izumi Seimitsu Kogyo Kabushiki Kaisha is not a party to this appeal.

corporation. Philips charged Windmere with infringement and Izumi with contributory infringement of certain United States patents. Philips also charged Windmere with unfair competition based on asserted confusing similarity of the Izumi-supplied shavers. By counterclaim Windmere charged Philips with violation of the Sherman Act. Trial was to a jury. A verdict was directed against Windmere on the antitrust counterclaim, but was reversed by this court and remanded for trial. *U.S. Philips Corp. v. Windmere Corp.*, 861 F. 2d 695, 8 USPQ2d 1885 (Fed. Cir. 1988), *cert. denied*, *North American Philips Corp. v. Windmere Corp.*, 490 U.S. 1068 (1989).

No appeal was taken from the judgement on the patent infringement count, which was decided in favor of Philips and against Windmere and Izumi; final judgment on the patent count was entered in 1986. The unfair competition claim was re-tried along with the antitrust counterclaim, and judgments were duly entered upon the jury verdicts, which were in favor of Windmere. *U.S. Philips Corp. v. Windmere Corp.* No. 84-2508, (S.D. Fla. Apr. 6, 1990) (antitrust issue); and (S.D. Fla. May 4, 1990) (unfair competition issue). Now before this court is Philips' appeal of these judgments.

During pendency of this appeal Philips and Windmere entered into a settlement agreement. In accordance with the terms thereof Philips and Windmere filed a joint motion to dismiss the appeal and vacate the judgments. Izumi has opposed the motion to dismiss insofar as it requests vacatur of the judgments.

# I

## Izumi's Standing

Izumi argues that it has standing to oppose the motion, for the following reasons:

# A

Izumi states that it was a party before the district court, and that its continued status as a party is evidenced by its inclusion in this court's official caption, citing Fed. Cir. Rule 12 (practice note). Fed. Cir. Rule 12 relates to the docketing of an appeal and the filing of the record. The practice note provides that "parties included in the trial court title having an adverse interest to the appellant but not cross appealing shall be deemed appellees." Izumi states that neither Philips nor Windmere objected to the inclusion of Izumi in the official caption. Izumi thus maintains that it has standing as an appellee.

Although Izumi's name is indeed carried in the caption, Izumi is not a party to this appeal or any aspect thereof, was not a party to the trial of these claims, and did not file an appearance in the district court trial of these issues. Izumi did not file an appearance upon appeal to this court, and did not file a certificate of interest with this court. A practice note does not confer status or standing. Izumi was a party only to the patent infringement cause, for which the judgment was not appealed. Although Izumi argues that this court "does not require an appellee to be named on every claim", Izumi is not party to any claim, and has not been since 1986.

Philips points out, without contradiction, that Izumi took affirmative steps to avoid being characterized or involved as a party in the trial of these counts. The record shows Izumi's resistance to discovery on the argument that it is not a party. We conclude that inclusion on the "official caption" does not establish status as a party before this court.

# B

Izumi argues alternatively that even if it were not a party to the proceedings that are the subject of this appeal and settlement, its substantial involvement in the proceedings and its substantial interest in the subject matter provide standing to oppose vacatur.



Izumi states that it was an indemnitor of Windmere and supporter of the entire defense on behalf of Windmere, including this appeal. Izumi also states that its testimony was key on the unfair competition issue. Izumi thus argues that even as a non-party it has sufficient interest to intervene and/or to oppose the motion.

We do not discern in Izumi's financial support of Windmere the authority to intervene in this court. The certificate of interest filed on this appeal identifies Windmere as the real party in interest. Despite Izumi's asserted interest as manufacturer of the accused product, Izumi refrained from intervention at the trial pursuant to Fed. R. Civ. P. 24, and did not seek to join the action under Fed. R. Civ. P. 19 or 20. Any financial or commercial interest Izumi might have in the unfair competition claim does not confer standing as a party, on the posture of this case.

## C

Izumi argues that because it is involved at a trial in Illinois on similar issues, the judgment of the Florida court should be preserved for purposes of collateral estoppel. The district court in Illinois has granted a motion for summary judgment filed by Sears, Roebuck & Co. against Philips, based on preclusion due to the Florida unfair competition judgment. *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85-C-5366 (N.D. Ill. Oct. 5, 1990), *recons. denied*, 1991 U.S. Dist. LEXIS 506 (N.D. Ill. Jan. 16, 1991). Philips and Windmere point out that Izumi seeks the benefit of the Florida settlement, yet seeks the benefit of the Florida judgment (which the settlement would vacate) for its possible effect in other actions.

Izumi does not dispute that it is not a party to the unfair competition claims in the Illinois action. In view of this status, this argument does not lend Izumi standing to intervene in order to preserve the Florida judgment.

## D

We conclude that Izumi does not have standing to oppose the joint motion.

## II

## Vacatur

It is nonetheless appropriate that this court review the propriety of vacatur, for we do not view vacatur as automatic under all circumstances.

This court has held that vacatur of the judgment at trial is appropriate when settlement moots the action on appeal. *Federal Data Corp. v. SMS Data Products Group, Inc.* 819 F.2d 277, 280 (Fed. Cir. 1987); *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664, 5 USPQ2d 1686, 1687 (Fed. Cir. 1988). Authority is found in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) and *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267 (1936), which provide that judgments should in general be vacated when the case becomes moot. In *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, 111 S. Ct. 1300 (1991) the Court summarily vacated a decision of the Eleventh Circuit and ordered the appellate court to dismiss the case under *Munsingwear*, apparently because the parties had settled. *Consolidated Gas Co. of Florida v. City Gas Co. of Florida*, 931 F.2d 710 (11th Cir. 1981) (on remand from Supreme Court).

We take note that some circuits have declined to vacate judgments merely because the parties settled their dispute. *E.g.*, *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3rd Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991); *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 726 (9th Cir. 1989); *In re Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988). These courts distinguish the "mootness" occasioned by settlement pending appeal from that which was the concern in *Munsingwear*. *Munsingwear* addresses the

situation where the parties are foreclosed from seeking appellate review by circumstances beyond their control, whereas these courts characterize settlement of claims pending appeal as a voluntary decision to forego appeal, and not as a "happenstance" which divests the parties of their right to appellate review. *Clarendon*, 936 F.2d at 130; *In re United States*, 927 F.2d at 627-28; *National Union*, 891 F.2d at 766; *In re Memorial Hosp.*, 862 F.2d 1301. See generally 13A Charles A. Wright et al., *Federal Practice and Procedure* §3533.10 (1984 & Supp. 1992) (discussing the concerns faced by courts in deciding whether to vacate a judgment in light of settlement pending appeal).

Although in the Federal Circuit vacatur is the general rule, we do not hold that vacatur must always be granted, whatever the circumstances. In this case, however, as in *Federal Data Corp.* and *Smith International*, the settlement between Philips and Windmere includes all the parties to the appeal. All of the claims of the judgments were appealed, and have now become entirely moot. See *Munsingwear*, *supra*. The parties to this appeal are entitled to rely on our precedent. Vacatur of the judgments on appeal is appropriate.

ACCORDINGLY, IT IS ORDERED THAT:

1. Izumi's opposition to the parties' joint motion to dismiss and vacate is DENIED.
2. The parties' joint motion is GRANTED. The judgments of April 6, 1990 and May 4, 1990 are VACATED. We remand with instructions that the case be DISMISSED WITH PREJUDICE.

3. Thereupon, Appeal No. 92-1020 is DISMISSED.

FOR THE COURT

/s/  
Pauline Newman  
Circuit Judge

Date: July 31, 1992

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 84-2508-Civ-Marcus

U.S. PHILIPS CORPORATION,  
NORTH AMERICAN PHILIPS  
CORPORATION, N.V. PHILIPS  
GLOEILAMPENFABRIEKEN,

Plaintiff/  
Counterdefendants,  
Third Party Defendant,

vs.

WINDMERE CORPORATION, and IZUMI  
SEIMITSU KOGYO KABUSHIKI KAISHA,

Defendants/  
Counterplaintiffs

ORDER OF JUDGMENT

This COURT having received a verdict from the jury on this date in favor of Windmere Corporation in the amount of \$29,881,419.00 under Windmere's claim under Section II of the Sherman Act, hereby enters an order for that amount trebled to the amount of 89,644,257.00, plus reasonable attorneys fees, interest, and costs pursuant to Section IV of the Clayton Act.

DONE AND ORDERED in Chambers at Miami, Florida  
this 6th day of April, 1990.

/s/  
Stanley Marcus  
DISTRICT COURT JUDGE  
SOUTHERN DISTRICT OF  
FLORIDA

cc: all counsel of record

A8

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF FLORIDA**

CASE NO. 84-2508-CIV-MARCUS

U.S. PHILIPS CORPORATION and  
NORTH AMERICAN PHILIPS  
CORPORATION,

*Plaintiffs,*

vs.

WINDMERE CORPORATION and  
IZUMI SEIMITSU KOGYO KABUSHIKA  
KAISHA,

*Defendants.*

**JUDGEMENT REGARDING UNFAIR  
COMPETITION CLAIMS**

THIS COURT having received a verdict from the jury in favor of Windmere Corporation with respect to the unfair competition claims filed by North American Philips Corporation, hereby dismisses with prejudice the claims of U.S. Philips Corporation and N.A. Philips Corporation against Windmere under Section 43(a) of the Lanham Act.

DONE AND ORDERED at Miami, Florida, this 4 day of May, 1990.

/s/ \_\_\_\_\_  
STANLEY MARCUS  
UNITED STATES  
DISTRICT JUDGE  
SOUTHERN DISTRICT  
OF FLORIDA

cc: Counsel of record

A9

92-1020

**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL COURT**

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION and  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,

*Plaintiffs-Appellants,*

v.

WINDMERE CORPORATION and IZUMI  
SEIMITSU KOGYO KABUSHIKI KAISHA,

*Defendants-Appellees.*

**ORDER**

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED, and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on October 7, 1992.

FOR THE COURT,  
FRANCIS X. GINDHART, CLERK

Dated: October 2, 1992

By /s/ \_\_\_\_\_  
Diane M. Frye  
Chief Deputy Clerk



A10

cc: WILLIAM E. WILLIS  
HERBERT H. MINTZ  
EDWARD L. FOOTE

U.S. PHILIPS CORP V WINDMERE CORP, 92-1020  
(DCT - 84-2508)

Note: Pursuant to Fed. Cir. R. 47.8, this order is  
not citable as precedent. It is a public record.

A11

**IZUMI SEIMITSU KOGYO CO., LTD.**  
No. 3-1. 2-CHOME. MOTOMACHI  
MATSUMOTO, MAGANO PREF. 390  
TLX 3342-348 IZUMM J  
TEL: 0263-35-5050

Date: Feb. 20, 1984

### AGREEMENT

We, Izumi Seimitsu Kogyo Co., Ltd., as seller agrees to save and hold harmless and indemnity Windmere (hereafter called "Buyer") from any and all claims, demands, actions, suits and judgements, and damages incurred and costs and expenses, including any and all attorneys' fees, incident thereto, arising out of and brought against the buyer in connection with any patent infringement charges and/or claims and/or any other charges or claims resulting from the buyers sale and/or normal use of the articles, supplies or equipment furnished by seller under this agreement. Buyer agrees to promptly and fully advise seller of any and all patent infringement charges and claims made against the buyer by reason of such sale or normal use of said articles, supplies and equipment furnished hereunder, and further agrees to supply seller with copies of all notices, letters and papers pertaining to such claims and charges and to cooperate in all reasonable ways with seller in disposing in such matters at the cost and expense of the seller.

Buyer will tender to seller and seller shall assume full and sole control of the defense to any such claims and charges and/or suit including the right of seller to employ counsel of seller's own choice, and the right of seller to make any reasonable settlement.

A12

Windmere Products, Inc.

/s/ By

Izumi Seimitsu Kogyo Co, Ltd.

/s/ By

Shunji Izumi

President

A13

No. 92-1020

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**IN THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION, and  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
*Plaintiffs-Appellants,*

v.

WINDMERE CORPORATION and  
IZUMI SEIMITSU KOGYO  
KABUSHIKI KKAISHA,  
*Defendant-Appellees*

**DECLARATION OF WILLIAM L. ANDROLIA**

I, William L. Androlia, declare as follows:

1. I am a member in good standing of the Bar of the State of California. I am also a member of the firm of Koda & Androlia, 1880 Centery Park East, Suite 519, Los Angeles, California 90067. Since at least as early as 1984, I have served as patent counsel to Izumi Seimitsu Kogyo Company Ltd ("Izumi").

2. In that capacity, I have advised Izumi in connection with a civil action for patent infringement and unfair competition brought against Izumi and one of its customers, Windmere Corporation, in the United States District Court for the Southern District of Florida by U.S. Philips Corporation and North American Philips Corporation ("Philips"). I am fully familiar with the procedural history of that action, and with the nature and extent of Izumi's participation as a defendant in that action.

3. Izumi, a Japanese manufacturer of electric razors, produced rotary electric razors for Windmere, and another U.S.

customer, Sears Roebuck. Windmere sold the Izumi razors in the United States under the Ronson brand name.

4. In 1984, Izumi and Windmere executed an indemnification agreement. (Exhibit A) This indemnification agreement was included as an exhibit in the Florida action.

5. In 1984, U.S. Philips Corp. and North American Philips brought suit in the Southern District of Florida against Windmere and Izumi.

6. Pursuant to its indemnification agreement with Windmere, Izumi assumed responsibility for funding the defense of Philips' patent and unfair competition claims and has continued to bear this expense through two jury trials and this appeal. To date, Izumi has spent in excess of 2.6 million on legal fees in the Florida action, all of which have been spent on defending against Philips' unfair competition claim at trial and in opposing Philip's appeal from the district court's judgment dismissing that claim.

7. The Florida action has involved two separate jury trials. The first jury trial took place in 1986, and involved Philips' claims of patent infringement and unfair competition, as well as Windmere's counterclaim for violations of the antitrust laws. At the trial, Izumi and Windmere were represented by the same attorneys, and Izumi's president sat at counsel's table and testified concerning both the unfair competition and antitrust claims.

8. A second jury trial was held on Philips' unfair competition claim, and on Windmere's antitrust counterclaims in 1990. Izumi's president testified concerning the unfair competition and antitrust claims at that second trial as well.

9 The jury found for Windmere on the monopolization claim, and judgement was entered in the amount of \$89,664,257.00 plus attorney's fees, interest and costs. The jury

further found against Philips on the unfair competition claim, concluding that Philips had not proved:

- (1) that the trade dress of the Izumi manufactured razors was confusingly similar to Philips' trade dress;
- (2) that Philips' trade dress was primarily nonfunctional or had acquired secondary meanings.

(Exhibit B)

10. In addition to the Florida action against Windmere and Izumi, Philips filed a companion case against Sears and Izumi in the Northern District of Illinois. (Civ. No. 85 C 05366) Like the Florida action, the Illinois action involved claims for patent infringement and unfair competition revolving around Philips' alleged trade dress. Similarly, Izumi counterclaimed alleging antitrust violations by Philips. Following judgment in the Florida action dismissing Philips' unfair competition claim, the Illinois court dismissed Philips' unfair competition claim against Sears on the ground that it was barred by the Florida judgment.

(Exhibit C)

11. On or about April 2, 1992, I informed Mr. David Friedson, President of Windmere, that Izumi would oppose any effort by Philips or Windmere to vacate the Florida court's judgment as a result of any settlement.

12. On or about May 11, 1992, I was advised by Charles Saber, Esq. of Dickstien, Shapiro and Morin, counsel for Windmere and Izumi in the Florida action, that he and his firm could not, due to a conflict of interest, represent Izumi with respect to any effort to oppose the Joint Motion to Dismiss and Vacate pending before this Court, including any action by Izumi to oppose efforts by Philips or Windmere to vacate the judgment below.

I declare under penalty of perjury that all of the foregoing is true and correct pursuant to 28 U.S.C. § 1746.

Date: May 15, 1992     /s/ \_\_\_\_\_  
William L. Androlia

## SETTLEMENT AGREEMENT

This Settlement Agreement is made this 6th day of May, 1992 by and between North American Philips Corporation ("NAPC") and Windmere Corporation ("Windmere").

WHEREAS, in October 1984 NAPC sued Windmere in the United States District Court for the Southern District of Florida ( the "Action") for patent infringement and unfair competition and Windmere brought counterclaims against NAPC under, among other statutes, the federal antitrust laws; and

WHEREAS, on April 6, 1990 a judgment was entered against NAPC on Windmere's antitrust counterclaim in the amount of \$89,644,257 plus attorneys fees, interest and costs, and on May 4, 1990 a judgment was entered on NAPC's unfair competition claims (collectively the "Judgment"); and

WHEREAS, certain post trial motions filed by NAPC were denied by the District Court in an order dated September 3, 1991; and

WHEREAS, on September 30, 1991 NAPC filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit which appeal is now pending; and

WHEREAS, NAPC and Windmere wish to compromise and settle all claims and counterclaims asserted in the Action as well as all claims which NAPC and Windmere may have against each other as of the date of this Agreement;

NOW THEREFORE, IT IS AGREED, by and between NAPC and Windmere that all claims which each may have against the other shall be settled and compromised on the following terms and conditions:



1. At 10:00 a.m. on May 11, 1992 (the "Closing Date"), at the offices of Sullivan & Cromwell, 250 Park Avenue, New York, N.Y. 10017 (the "Closing"), Windmere shall deliver to NAPC an executed motion to vacate the Judgment, in the form attached hereto as Exhibit A.

2. At the Closing, Windmere shall deliver to NAPC an executed General Release.

3. At the Closing, NAPC shall deliver to Windmere an executed General Release.

4. On the Closing Date, NAPC shall pay to Windmere the sum of \$57,000,000 by wire transfer in immediately available funds to Windmere's account at the Bank of New York, One Wall Street, New York, N.Y.; ABA #02100018, Account #8033297689, Attention: Agency Function Administration; Reference: Windmere.

5. The transactions described in paragraphs 1-4 shall be executed simultaneously and no one of them shall be deemed completed until all are completed. The completion of the transactions described paragraphs 1-4 shall constitute the complete performance by each party to this Settlement Agreement of their mutual obligations set forth in paragraphs 1-4.

6. NAPC and Windmere further agree that Windmere shall cooperate, to the fullest extent of its ability, with NAPC in filing the motion referred to above and in taking such other steps as may be necessary to vacate the judgment and the proceedings in the District court relevant to the Judgment. It is the intention of all parties to this Settlement Agreement that the Judgment, the opinion and the jury interrogatories on NAPC's unfair competition claim and Windmere's antitrust claim will be of no force and effect and shall have no precedential or other value, including, without limitation, any effect under the doctrines of collateral estoppel or res judicata; provided, however and without limiting the foregoing, Windmere's rights to the con-

sideration described in paragraphs 3 and 4 above shall in no way be affected by any failure, for whatever reason, to realize the intention of the parties described in this paragraph 6.

7. This agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which shall be a single Agreement.

8. NAPC and Windmere shall consult with one another prior to the release of any public statements concerning the Settlement.

WINDMERE CORPORATION

by \_\_\_\_\_

( )  
NORTH AMERICAN PHILIPS  
CORPORATION

by /s/ \_\_\_\_\_

( )  
Samuel J. Rozel  
Senior Vice President and Secretary

STATE OF FLORIDA  
COUNTY OF DADE

ss.:

On May \_\_\_\_, 1992 before me personally came \_\_\_\_\_  
to me known, who by me duly swore did depose and say that  
deponent is the \_\_\_\_\_ of Windmere Corporation, that  
deponent executed the above document by order of the Board  
of the corporation.

\_\_\_\_\_  
Notary Public

STATE OF NEW YORK  
COUNTY OF NEW YORK

SS.:

On May 6, 1991 before me personally came /s/Samuel J. Rozel to me known, who by me duly sworn did depose and say that deponent is the Sr. V.P. & Sec. of North American Philips Corporation, that deponent executed the above document by the order of the Executive Management Committee of the Corporation.

/s/\_\_\_\_\_  
Loretta L. Nassau  
Notary Public

\* \* \* \*

8. NAPC and Windmere shall consult with one another prior to the release of any public statements concerning the Settlement.

WINDMERE CORPORATION

by /s/\_\_\_\_\_  
( )  
David Friedson  
President

NORTH AMERICAN PHILIPS  
CORPORATION

by\_\_\_\_\_  
( )

STATE OF FLORIDA  
COUNTY OF DADE

SS.:

On May 6, 1992 before me personally came /s/David Friedson to me known, who by me duly sworn did depose and say that deponent is the President of Windmere Corporation, that deponent executed the above document by order of the Board of the corporation.

/s/\_\_\_\_\_  
Marsha E. Wisecup  
Notary Public

STATE OF NEW YORK  
COUNTY OF NEW YORK

SS.:

On May, 1991 before me personally came \_\_\_\_\_ to me known, who by me duly sworn did depose and say that deponent is the \_\_\_\_\_ of North American Philips Corporation, that deponent executed the above document by the order of the Executive Management Committee of the Corporation.

\_\_\_\_\_  
Notary Public



**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

U.S. PHILIPS CORPORATION and  
NORTH AMERICAN PHILIPS CORP.,

*Plaintiffs,*

v.

SEARS ROEBUCK & CO. and IZUMI  
SEIMITSU KOGYO KABUSHIKI KAISHA,

*Defendants.*

**MEMORANDUM OPINION**

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on three motions brought by Defendants Sears Roebuck & Co. ("Sears") and Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"). The first motion is for summary judgment dismissing Plaintiffs U.S. Philips Corporation and North American Philips Corporation (both referred to jointly as "Philips") on their claim for infringement of U.S. Patent No. 4,227,301 (the "301 patent"). The second motion is for summary judgment dismissing Philips' claim for infringement of U.S. Design Patent N. 259,591 (the "591 patent"). The third motion the defendants bring is for summary judgment dismissing Philips' claim for unfair competition. For the reasons stated herein, the first and second motions are denied and the third motion is granted.

**FACTS**

Izumi is a Japanese corporation which sells razors to Windmere Corporation and Sears for resale in the United States. Windmere sells its razors under the "Ronson" trade name and

Sears sells its razors under the name "Sears Rotomatic." N.V. Philips is a Netherlands corporation which sells its razors in the United States through American Philips Corporation under the tradename "Norelco." N.V. Philips indirectly owns or controls U.S. Philips, a Delaware corporation which holds intellectual property rights including the utility and design patents at issue in this case.

Philips filed this action on June 6, 1985, alleging that Sears infringed and Izumi induced the infringement of the '301 patent and the '591 patent. Specifically, in their claim for the infringement of the '301 patent, Philips allege that the design of the Sears Rotomatic shaver blade setting is an unfair copy of the design of Philips' rotary electric shaver blade setting. Concerning the infringement of the '591 patent, Philips allege that the faceplate of the Sears' Rotomatic III shaver is an infringement of the '591 patent. On February 12, 1986, Philips filed a supplemental complaint against Sears alleging two counts of unfair competition, claiming that the design of a Sears shaver was a copy of the design of some of Philips' shavers.

On June 13, 1988, this court granted summary judgment as to Izumi and denied as to Sears on the '301 patent infringement claim. This court also denied the defendants' motion for summary judgment as to the '591 patent infringement claim as material issues of fact existed which could only be decided by the trier of fact.

Philips had filed a similar lawsuit against Izumi and Windmere, the other seller of Izumi razors, in a Florida district court in October 1984. Philips claimed an infringement of the '301 patent and unfair competition in violation of 43(a) of the Lanham Act, 15 U.S.C. § 1125. *U.S. Philips v. Windmere Corp.*, No. 84-2508-Civ (the "Florida litigation"). In that suit Philips alleged that the design of all of the rotary electric shavers sold by Windmere were an unfair copy of the design of some of Philips rotary electric shavers. Izumi filed a declaratory judg-

ment counterclaim in the Florida litigation alleging that the '301 was invalid and not infringed. That case proceeded to a jury trial and on April 30, 1986, the court entered final judgment on the jury's verdict in favor of Philips on the patent infringement claims, against Izumi on its declaratory judgment counterclaim, and against Philips on its unfair competition claims. On March 20, 1988, the Florida Court granted Philips' motion for a new trial on its unfair competition claims only. Philips' unfair competition claim was retried in Florida in March and April 1990. On April 6, 1990, the jury found for Windmere on all issues. Philips then filed motions for a judgment notwithstanding the verdict and for a new trial in the Florida action.

## DISCUSSION

### I. Summary Judgment Standard

Summary judgment is appropriate if the pleadings, answers to interrogatories, admissions, affidavits and other materials show "that there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). A material fact is one which might effect the outcome of the suit under applicable law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). No genuine issue exists "unless there is sufficient evidence favoring the non-moving party for a jury to return a verdict for that party." *id.* at 249. Summary judgment may be granted if the evidence is merely colorable or is not significantly probative. *Id.* at 249-50.

When a properly supported motion for summary judgment has been made, the opposing party "must set forth specific facts showing that there is a genuine issue for trial." *Id.* The opposing party is entitled to the benefit of all favorable inferences which can reasonably be drawn from the underlying facts; however, only *reasonable* inferences will be drawn, not every conceivable inference. *DeValk Lincoln Mercury, Inc. v. Ford Motor Co.*, 811 F.2d 326, 329 (7th Cir. 1987).

### II. '301 Patent

Defendant Sears moves under the doctrine of collateral estoppel for summary judgment based upon the results of the trials in *U.S. Philips v. Windmere*, No. 84-2508-Civ ("Windmere"). In *Windmere* the jury awarded Philips \$6,500.00 for Izumi's infringement of the '301 patent. Sears argues that because Izumi provided Sears with substantially the same shaver parts as Izumi gave Windmere, any patent infringement of the '301 patent by Sears should result in the same damage award as the jury awarded in *Windmere*. Sears seeks and order limiting the damages for any '301 patent infringements to \$6,500.00.

Philips responds by arguing that 1) there is no showing that the infringements by Sears and Windmere were identical, 2) Philips may be awarded increased damages in the present case because of the Philips' claim that Sears willfully infringed the patent, and 3) it is unclear how the jury in *Windmere* came to award \$6,500.00 in damages. Thus, the \$6,500.00 award should not be following in the present case. We agree with Philips.

#### A. Law of Collateral Estoppel

The collateral estoppel doctrine precludes relitigation of issues in a subsequent proceeding when the following four elements are satisfied: 1) the party against whom estoppel is asserted was a party to the prior adjudication; 2) the issues forming the basis of the estoppel were actually litigated and decided on the merits in the prior suit; 3) resolution of those particular issues was necessary to the court's judgment and 4) those issues are identical to the issues raised in the subsequent suit. *County of Cook v. Midcom Corp.*, 773 F.2d 892, 898 (7th Cir. 1985); *Guenther v. Holmgreen*, 738 F.2d 879, 844 (7th Cir. 1984). Collateral estoppel "must be confined to situations where the matter raised in the second suit is identical in all respects with that decided in the first proceeding and where the



controlling facts and applicable legal rules remain unchanged.” *Commissioner v. Sunnen*, 333 U.S. 591, 599-600 (1948). The party asserting collateral estoppel has the burden of proving each of those elements. *Folson v. Continental Illinois National Bank & Trust Co.*, 633 F. Supp. 178, 181 (N.D. Ill. 1986). Even where those elements are shown, however, there is no preclusion if the party against whom collateral estoppel is asserted had no full and fair opportunity to litigate the issues in the former action. *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 91 S. Ct. 1434, 1445 (1971).

**B. Application to claim of '301 patent infringement:**

The Florida jury's award of \$6,500.00 for Izumi and Windmere's infringement of the '301 patent is not binding in this suit for Sears' infringement. To begin, Sears has made no showing that the circumstances of its infringement are identical to Windmere's. The facts suggest different periods of infringement by different shavers. Sears acknowledged that it began selling Izumi-manufactured rotary shavers in 1977, whereas, the evidence in *Windmere* showed that Windmere did not begin selling rotary shavers until 1984.

In addition, if Philips is successful in proving willful infringement by Sears, Philips may get increased damages under 35 U.S.C. 284. Finally, the *Windmere* jury awarded a dollar amount without a clear explanation of the method of calculation. Sears argues that the jury used the cost to Izumi to make a non-infringing replacement part as the basis of their damage calculation. This is speculation. Without more, the damage award in *Windmere* will not be assumed to apply to Sears. Philips should be free to seek damages specific to Sears' alleged infringement in this action. Sears' motion for summary judgment to limit the damage award is denied.

**III. '591 Patent**

Sears and Izumi seek summary judgment on the '591 patent infringement claim as 1) Philips admitted on three occasions that the Sears Rotomatic III faceplate does not infringe the '591 patent, and 2) the Sears Rotomatic III faceplate does not duplicate any novel feature of the '591 faceplate.

Philips responds by arguing that 1) this is a duplicate motion that this court already denied and the law has not changed to warrant a reversal of the court's prior ruling, 2) the alleged admissions are taken out of context, and 3) there is a factual issue for the jury as to whether the designs would confuse the ordinary purchaser. Therefore, summary judgment is inappropriate here. We agree with Philips.

We will view Sears' motion for summary judgment on the '591 patent infringement claim as a new motion and discuss it accordingly. In our June 13, 1988, opinion in this case we informed the parties that the infringement claim required a comparison by the "ordinary observer" under the *Gorham* test. The *Gorham* test provides:

if, in the eye of a ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

*Gorham Mfg. Co. v. White*, 81 U.S. 511, 528 (1872).

Sears argues that on different occasions a Philips' researcher, attorney, and Vice President for marketing all admitted that the Sears Rotomatic did not duplicate the '591 patent. Philips responds that these alleged admissions are taken out of context. Moreover, as we stated in our June 13th opinion, the Vice President of marketing is not the "ordinary observer".

Likewise, the attorneys and researchers are not ordinary observers. Moreover, there still exists a factual dispute as to whether the Sears Rotomatic would confuse the ordinary purchaser.

Sears also argues the *Avia Group International, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557 (Fed Cir. 1988) establishes a new standard for infringement claims, requiring the infringing item to copy the novel feature of the infringed patent. Sears argues that its faceplate does not copy the novel feature of the '591 faceplate. However, even under *Avia Group's* novel feature standard, Sears' argument must fail.

There is a factual issue as to what the '591 novel features are. The parties disagree on which diagrams are accurate representations of the '591 faceplate and the Sears Rotomatic faceplate. Also, Sears argues that '110 patent is prior art to '591. Philips claims that '110 patent is a utility patent primarily directed to the inner mechanism of a shaver. Clearly, with such disagreements between the parties, the issues of whether Sears has infringed the '591 patent presents factual issues for the trier of fact. Accordingly, Sears motion for summary judgment on the issue of whether the Sears Rotomatic infringed the '591 patent is denied.

#### IV. Unfair Competition

Sears seeks summary judgment dismissing the unfair competition claim as Philips fully litigated and lost the identical claim in *Windmere*. Specifically, Sears argues that 1) two juries found the three elements necessary to an unfair competition claim lacking in *Windmere*, 2) both the *Windmere* claim and the present claim were brought under §43(a) of the Lanham Act, § 1125(a) of 15 U.S.C., 3) the jury instructions that the Florida judge gave on functionality and second meaning were consistent with Illinois law, and 4) the Seventh Circuit twice rejected Philips' different law arguments.

Philips responds that it has not had a full and fair opportunity to litigate its case against Sears as Sears was not a party in *Windmere*. Specifically, Philips argues that 1) Illinois courts and Florida courts analyze the issues of functionality and secondary meaning differently and the burdens are different for the plaintiffs and defendants, and 2) the likelihood of confusion to consumers is based on many marketing factors which will be different for Sears than they were for *Windmere*. Thus, summary judgment is inappropriate in this case. However, Philips' arguments miss the point. The *Windmere* court has already determined that Philips' trade dress is not protected, thus, whether Sears actually copied it or not is irrelevant.

To receive legal protection for a trade dress a party must generally prove the following three elements: 1) its design was primarily non-functional; 2) the design had achieved secondary meaning and 3) there was a likelihood of confusion between the plaintiff's product and the defendant's product. See e.g., *Blau Plumbing Inc. v. S.O.S. Fix-it Inc.*, 781 F.2d 604, 608-611 (7th Cir. 1986). Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law, see, e.g., *Blau*, 781 F.2d at 610, the court in *Windmere* found that Philips' trade dress was not protected.

In a patent infringement suit, the patentee is estopped from asserting the validity of a patent that had already been declared invalid in a prior suit in federal court against a different defendant, unless the patentee demonstrates that he did not have fair and full opportunity, substantively, procedurally, and evidentially, to litigate the validity of his patent in the prior suit. *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 91 S. Ct. 1434, 1445 (1971); *A.J. Canfield Company v. Vess Beverages, Inc.*, 859 F.2d 36, 40 (7th Cir. 1988).



In the present case, Philips has presented no evidence to suggest that they did not have a full and fair opportunity to litigate their trade dress in Florida. In fact, Philips litigated their trade dress in Florida on two different occasions. As Philips points out, were the court to accept the Philips' position, Philips would be allowed to argue circuit by circuit whether its trade dress should be protected. This would lead to an inconsistent result where Philips' trade dress would be functional, and capable of being copied, in some circuits and non-functional and not capable of being copied in others.

The arguments Philips presents to argue that the law and burden of persuasion differ in Illinois and Florida are off base. Philips *chose* to litigate its trade dress in Florida. Philips was prepared to and did litigate its claim to the finish. Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips' unfair competition claim is granted.

/s/

Charles P. Kocoras  
United States District Judge

Dated: October 5, 1990

**IN THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION, and  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
*Plaintiffs-Appellants,*

v.

WINDMERE CORPORATION and  
IZUMI SEIMITSU KOGYO  
KABUSHIKI KAISHA,  
*Defendants-Appellees.*

**JOINT MOTION TO DISMISS THE APPEAL  
AS MOOT AND VACATE THE JUDGMENTS BELOW**

Appellants North American Philips Corporation ("N.A. Philips") and N.V. Philips Gloeilampenfabrieken ("N.V. Philips") (collectively "Phillips") and appellee Windmere Corporation ("Windmere"), having reached an agreement to settle the above-referenced litigation under the terms set forth in Exhibit A hereto (the "Settlement Agreement"), respectfully move this Court for an Order in the form of Exhibit B hereto dismissing the appeal in No. 92—1020 as moot and vacating the District Court's Judgments. The relief requested by this joint motion is directly supported by this Court's prior decisions.

**FACTUAL BACKGROUND**

Philips is appealing a judgment entered on May 4, 1990, dismissing its claim under the Lanham Act and a judgment entered on April 16, 1990, awarding Windmere \$89,662,257 plus interest and attorneys' fees on its antitrust counterclaim. This action was commenced in the United States District Court for the Southern District of Florida by N.A. Philips and its sister

company, U.S. Philips Corporation, against Windmere and its supplier, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"), for patent infringement and against Windmere for unfair competition relating to Philips' NORELCO brand rotary shavers. Izumi indemnified Windmere for the claims asserted by Philips. Windmere counterclaimed against Philips, alleging numerous violations of federal law (most notably the Sherman Act) and state law.

This case was first tried to a jury in April 1986. The jury found that Philips' patent was valid and infringed, and the judgment entered on Philips' patent claim is not implicated by this appeal. Windmere's Sherman Act claims were dismissed pursuant to the District Court's grant of Philips' motion for a directed verdict. Windmere appealed, and this Court, in a three-to-two decision, determined that Windmere's monopolizations claim should have been submitted to the jury and thus reversed the District Court's directed verdict. A second trial followed, and two judgments were entered that are the subject of Philips' appeal. A fuller description of the facts is set forth in the parties' briefs on the merits.

#### **THE APPEAL SHOULD BE DISMISSED AND THE JUDGMENT BELOW VACATED**

During the pendency of this appeal, Philips and Windmere engaged in lengthy settlement discussions. Those discussions recently resulted in a Settlement Agreement fully resolving all disputes between all parties to this appeal. As a result, this appeal no longer presents a live controversy, and this Court should dismiss this appeal as moot. In circumstances such as those present here, "the appropriate course is for the appellate court to . . . vacate the judgment below." *Federal Data Corp. v. SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987); see also *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988).

As part of the Settlement Agreement, Windmere agreed to join Philips in moving this Court for an Order vacating the District Court's judgment. Philips' and Windmere's joint motion is nearly identical to that filed with this Court in *Smith Int'l. Inc.*, 839 F.2d at 663-64. There, the settling parties jointly moved this Court for an order vacating the judgment of the district court after all conditions of the settlement had been satisfied, including the payment of the cash amount called for by the settlement agreement. *Id.* at 663-64. This Court granted the parties' joint motion to vacate, emphasizing that the settlement mooted the controversy between the parties:

We agree with the parties that where it appears upon appeal that the controversy has become entirely moot, which is the effect of the settlement in this case, "it is the duty of the appellate court to set aside the decree below . . . ."

*Id.* at 664 (quoting *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267 (1936)) (emphasis added).

This Court similarly held in *Federal Data Corp.*, 819 F.2d at 280, that "[w]hen the parties have settled their differences, then the appropriate course is for the appellate court . . . to vacate the judgment below." The Court based this holding on the long-established federal policy favoring dispute resolution through voluntary settlement and the Supreme Court's holding in *United States v. Munsingwear*, 340 U.S. 36 (1950):

"The established practice of the court in dealing with a civil case from a court in the federal system which has become moot while on its way here or pending our decision on the merits is to reverse or vacate the judgment below . . . ."

819 F.2d at 279 (quoting *Munsingwear*, 340 U.S. at 39).

The law of this Circuit is entirely consistent with the holding of the Supreme Court in *City Gas Co. of Florida v.*

*Consolidated Gas Co. of Florida*, 111 S. Ct. 1300 (1991). The parties in *City Gas Co.* settled their dispute after the judgment of the Eleventh Circuit, sitting en banc, had been entered and while a petition for writ of certiorari was pending before the Supreme Court. The Supreme Court thereafter granted certiorari and vacated the judgments below in accordance with its *Munsingwear* decision. *City Gas Co.*, 111 S. Ct. at 1300. See also *Deakins v. Monaghan*, 484 U.S. 193, 200 (1988) ("When a claim is rendered moot while awaiting review by this Court, the judgment below should be vacated . . ."). As the Eleventh Circuit explained on remand from the Supreme Court, "[s]ince the decision of the en banc court, the parties have reached a settlement and the case, therefore, is moot." *Consolidated Gas Co. of Florida, Inc. v. City Gas Co. of Florida*, 931 F2d. 710, 711 (11th Cir. 1991). Pursuant to the Supreme Court's order, the Eleventh Circuit vacated its own en banc judgment and the judgment of the district court. *Id.*

According to the uniform law of this Circuit and the Supreme Court's holding in *City Gas Co.*, this Court should effectuate the desire of all parties to this appeal by entering an Order in the form of Exhibit B hereto vacating the judgment of the District Court and dismissing this appeal as moot.

Dated: New York, New York  
May 11, 1992

Respectfully submitted

/s/

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**UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

U.S. PHILIPS CORPORATION,  
NORTH AMERICAN PHILIPS CORPORATION,  
*Plaintiffs,*

v.

SEARS ROEBUCK & CO., and IZUMI SEIMITSU  
KOGYO KABUSHIKI KAISHA,  
*Defendants.*

**MEMORANDUM OPINION**

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on two motions. The first motion is brought by plaintiffs, U.S. Philips Corporation ("U.S. Philips") and North American Philips Corporation ("N.A. Philips"), to vacate the summary judgment entered by this Court on October 5, 1990, dismissing plaintiffs' unfair competition claim against defendant Sears Roebuck & Co ("Sears"). The second motion is brought by defendant, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") to reconsider this Court's order on December 1, 1987, for partial summary judgment dismissing this defendant's antitrust counterclaims.

For the sake of brevity, the Court will not repeat here the well-known procedural history of this case but will include pertinent procedural facts in our discussion below.

For the reasons set forth below, we will grant plaintiffs' motion to vacate the summary judgment order and will deny Izumi's motion for reconsideration.

**DISCUSSION**

**A. MOTION TO VACATE SUMMARY JUDGMENT**

Plaintiffs, U.S. Philips and N.A. Philips (collectively "Philips") move this Court to vacate the October 5, 1990 summary judgment order dismissing N.A. Philips' claim for unfair competition against defendant, Sears. Philips argues that the sole basis of our summary judgment order against N.A. Philips rests on the collateral estoppel effect of the Florida court judgment entered against N.A. Philips on its unfair competition claim against Windmere corporation. In support, Philips refers to our memorandum opinion, where we held that the judgements in the Florida cases ("*Windmere*"), preclude Philips' claims against Sears:

Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law (cite omitted), the court in *Windmere* found that Philips' trade dress was not protected . . . Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips unfair competition claim is granted.

(Memorandum Opinion, October 5, 1990, at 12-14). Philips further argues that the basis for our summary judgment ruling is no longer valid because the Federal Circuit vacated the *Windmere* judgment on July 31, 1992 following the parties' settlement agreement and move for vacatur.<sup>1</sup> Philips argues, and

<sup>1</sup> The procedural history is as follows: In May 1992, Windmere and Philips reached a settlement of the *Windmere* action. Given that Philips was giving up its right to appeal by settlement, the parties agreed that they would jointly move to vacate the unfair competition and antitrust judgments. Izumi, the defendant in the patent infringement claim in this action, filed an objec-

we agree, that as a result of their vacatur, the judgments in *Windmere* no longer have preclusive effect. Accordingly, we will vacate our summary judgement against N.A. Philips.

Defendant, Sears, opposes the motion to vacate the summary judgment, arguing that a judgment's preclusive effect is lost only when the judgment is vacated on the merits, not when the judgment is vacated upon settlement. We find, however, that the caselaw refutes this distinction. Moreover, Sears urges this Court to adopt the Ninth Circuit rule articulated in *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert den Union Oil Co. v. Bates*, 112 S. Ct. 1761, 60 U.S.L.W. 3735 (US 1992), holding that a vacated judgment can be given collateral estoppel effect where the parties settled while the judgment was on appeal. We find, however, that, in *Bates*, the Ninth Circuit drew a narrow exception to the settled rule for instances where a district court of that circuit vacates without first undergoing the weighing analysis mandated by the Ninth Circuit law in *Ringsby Truck Lines, Inc. v. Western Conferences of Teamsters*, 686 F.2d 720 (9th Cir. 1982). Therefore, we find *Bates* inapplicable to the present case where the Federal Circuit vacated the *Windmere* judgments at issue in compliance with its own law. Moreover, Sears' implication that the Federal Circuit improperly vacated the *Windmere* judgments misconstrues the instant issue. The issue before this Court is not whether the Federal Circuit was correct in vacating the *Windmere* judgments but, rather, the impact of the vacatur thereby ordered on our prior summary judgment. For these reasons, we reject Sears' arguments in opposition to the motion to vacate the summary judgment.

tion to the motion to vacate the unfair competition judgment. Nonetheless, on July 31, 1992, the Court of Appeals for the Federal Circuit vacated the judgments. See *U.S. Philips v. Windmere Corp.*, No. 92-1020, slip op. at 5 (Fed. Cir. July 31, 1992). On August 12, 1992 the Federal Circuit denied Izumi's motion to stay the mandate for the vacatur order. On October 2, 1992, Izumi's petition for rehearing and for en banc consideration was denied.

The issue in contention between the parties is the collateral estoppel effects of a judgment vacated pursuant to settlement. In the ensuing discussion, we will address first the bases in support of our conclusion that a vacated judgement has no preclusive effect and then our reasons for vacating this Court's summary judgment order.

# **1. A Vacated Judgment Has No Preclusive Effect**

As mentioned above, we relied upon the Florida court's *Windmere* judgments in reaching our determination in the summary judgment order that plaintiff's unfair competition claims were precluded on collateral estoppel grounds. On July 31, 1992, however, the Federal Circuit vacated these judgments. For the following reasons, we find that the vacated *Windmere* judgments have lost their preclusive effect.

## **a. The Federal Circuit's Vacatur Was Proper**

The Federal Circuit's vacatur of the *Windmere* judgments was in compliance with the law of the Federal Circuit. In *U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 at 5 (Fed. Cir. July 31, 1992), the Federal Circuit ruled that vacatur of the *Windmere* trial judgments was appropriate because "settlement moots the action on appeal." In reaching this conclusion, the Federal Circuit relied on the following precedent: *Federal Data Corp. V. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987) ("When the parties have settled their differences, then the appropriate course of action is for the appellate court to dismiss the action and to vacate the judgment below [citation omitted]."); *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988) ("where it appears upon appeal that the controversy has become entirely moot, which is the effect of settlement in this case, 'it is the duty of the appellate court to set aside the decree below and to remand the cause with directions to dismiss.' [citation omitted]"); and *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) ("the established



practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here . . . is to reverse or vacate the judgment below"). The Federal Circuit addresses the effect of vacatur pursuant to settlement in its recent *Kimberly-Clark Corp. v. Proctor & Gamble Distributing Co.* decision, which is also noteworthy for its citation of the July 31, 1992 *U.S. Philips* ruling presently contemplated by this Court:

Here, K-C and P & G settled the infringement issues by granting each other immunity from suit and releasing one another from past infringement damages. We therefore vacate that part of the district court's judgment relating to infringement, as such vacation eliminates judgments on which review has now been foreclosed. *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950); see also *U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 (Fed. Cir. July 31, 1992); *Federal Data Corp. v. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed Cir. 1987).

Nos. 92-1011 & 92-1024, 1992 U.S. App. LEXIS 19815 at \*6-\*7 (Fed. Cir. Aug. 26, 1992). Our determination that the vacatur of the *Windmere* judgments terminates their preclusive effect is thus in accordance with the Federal Circuit's treatment of the issue. We further recognize that the Federal Circuit complied with the law of that circuit when it vacated the *Windmere* judgments in *U.S. Philips*.

#### b. The Impact of Vacatur Under Seventh Circuit Law

We determine that, according to the Seventh Circuit, a vacated judgment loses its preclusive effect, regardless of whether or not the judgment was vacated pursuant to a settlement. Sears argues that the Seventh Circuit has not yet ruled on the issue whether to give collateral estoppel effect to a federal judgment vacated because the parties settled on appeal. We disagree in view of *Pontarelli Limousine, Inc. v. Chicago*, 929

F.2d 339 (CA7 Ill 1991), *reh, en banc, den Pontarelli Limousine, Inc. v. Chicago*, 1991 U.S. App. LEXIS 9467 (CA7 1991), where the Seventh Circuit held that an Illinois state court judgment lost all preclusive force when it was vacated pursuant to a settlement. In reaching this conclusion, the Seventh Circuit indicated that, though it applied Illinois law, this was federal law as well:

The first question on appeal . . . is whether the district judge erred in refusing to give the judgment in *Chicago Courtesy* collateral estoppel effect in this case, . . . He did not err. A vacated judgment has no collateral estoppel or res judicata effect under Illinois law, [citation omitted] (or any other law, *No East-West Highway Committee, Inc. v. Chandler*, 767 F.2d 21, 24 (1st Cir. 1985).<sup>2</sup>

Sears points to the Seventh Circuit's holding in *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), where the court held it would not vacate judgments on a motion by parties who settled while the case was on appeal. Sears uses this holding to argue that the Seventh Circuit's practice of refusing vacatur upon settlement avoids loss of preclusion in the instant case. The Seventh Circuit in *Pontarelli*, however, rejects this argument, which was raised by a party to that suit as well:

The plaintiffs rely on *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), for the contrary position. But that was a case in which we refused to vacate a judgment. *Had we done so, then*

<sup>2</sup> The court in *No East-West Highway* ruled "A vacated judgment has no preclusive force either as a matter of collateral or direct estoppel or as a matter of the law of the case." 767 F.2d at 24. The court relied, in part, upon 18 C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 4432 at 302 (1981), which reads: "Once . . . the judgment is vacated, preclusion is of course defeated as to any matter that is left open for further proceedings."



— as our opinion made clear — the judgment could not have been used in future litigation. Indeed this was one of the considerations that moved us not to vacate it. *Id.* at 1302. Maybe the judge in *Chicago Courtesy* should not have vacated the judgment in that case either, but he did so, and thus deprived it of any future effect.

929 F.2d at 341 (emphasis added). In the instant case, we need not ask whether the Seventh Circuit would have vacated the *Windmere* judgments as did the Federal Circuit. Rather, what is important to the present motion is that the Federal Circuit vacated the *Windmere* judgments in compliance with the law of that circuit. In light of this properly entered vacatur and the *Pontarelli* holding, this Court determines that the *Windmere* judgments no longer have preclusive effect.

#### c. Other Circuits' Treatment of This Issue

We find that other circuits are in agreement with our resolution of this issue. The following court opinions attest to this: *Universal City Studios, Inc. v. Nintendo Co.*, 578 F. Supp. 911, 919 (S.D.N.Y. 1983) *aff'd* *Universal City Studios, Inc. v. Nintendo Co.* 746 F.2d 112 (CA2 NY 1984) (no preclusive effect as to any issues where court of appeals vacated judgment pursuant to parties' settlement agreement); *Dodrill v. Ludt*, 764 F.2d 442, 444 (6th Cir. 1985) ("[T]he general rule is that a judgment which is vacated, for whatever reason, is deprived of its conclusive effect as collateral estoppel."); *Delta Air Lines, Inc. v. McCoy Restaurants, Inc.*, 708 F.2d 582, 585 (11th Cir. 1983) (After noting that the parties "properly" decided not to argue that a judgment vacated on appeal after settlement carried any preclusive effect, the court stated a "district court ruling vacated by a court of appeals as moot has no precedential value."); *Harris Trust and Savings Bank v. John Hancock Mutual Life Insur. Co.*, 1992 U.S. App. LEXIS 17451, No. 91-7854 at \*25-\*26 (2nd Cir. July 30, 1992) ("it is an abuse of

discretion for a district court to refuse to enter a vacatur pursuant to a settlement providing that the vacated order could not have collateral estoppel effect in any subsequent action."').<sup>3</sup>

#### 2. The Summary Judgment Against N.A. Philips Shall Be Vacated

This Court will vacate the summary judgment against N.A. Philips dismissing its unfair competition claim because the judgement upon which it rests has been vacated by the Federal Circuit in *U.S. Philips*. "[A] second judgment based upon the preclusive effects of the first judgment should not stand if the first judgment is reversed." Charles A. Wright et al., *Federal Practice and Procedure* § 4433 at 311 (1981). See also *Consolidated Express, Inc. v. New York Shipping Ass'n*, 641 F.2d 90,93-94 (3d Cir. 1981) *prohibition den In re International Longshoremen's Asso.*, 451 U.S. 905 (1981) ("Since the judgment which was the predicate for our discussion of collateral estoppel has been vacated so much of our prior judgment as required giving the judgment any effect in this case must be vacated."); *Fredyma v. AT&T Network Systems, Inc.*, 1991 U.S. App. LEXIS 13699 at \*2 (1st Cir. 1991) (Dismissal of a second complaint based on the preclusive effect of the first complaint whose dismissal was later vacated on appeal had to be reinstated because "[a] judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel."); *Humphreys v. Vic Corp.*, 1991 U.S. App. LEXIS 905 at \*11 (CA6 1991) ("A judgment in a second action that rests on the preclusive effects of a judgment in a prior action should not be allowed to stand if the first judgment is reversed.").

<sup>3</sup> In agreement is 1AB James Wm. Moore et al., *Moore's Federal Practice* ¶ 0.416[2] at 517 (2d ed. 1992): "A judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel [footnote omitted] The same is true, of course, of a judgment vacated by a trial court."

Therefore, in light of the Federal Circuit's vacatur of the *Windmere* judgments and our determination that, as such, the judgments no longer have preclusive effect, we vacate the summary judgment this Court entered against N.A. Philips.

#### B. MOTION FOR RECONSIDERATION

Izumi presently moves this Court to reconsider its December 1, 1987 order granting partial summary judgment, where we held that Izumi's antitrust counterclaims were compulsory counterclaims in the *Windmere* action. Izumi bases this present motion on the alleged reversal of representations made by Philips before the Federal Circuit and this Court. Izumi contends that Philips currently asserts that the predatory pricing antitrust counterclaims do not arise out of the same transaction or occurrence as the subject matter of the patent claim filed by U.S. Philips against Izumi, whereas at the time of moving for summary judgment against Izumi's antitrust counterclaims, Philips asserted the exact opposite. The issue we must address is whether Philips allegedly contradictory representations entitles Izumi to have its counterclaims reinstated. We determine that they do not and thereby deny Izumi's motion.

In our December 1, 1987 opinion, this Court determined that Izumi's antitrust claims were compulsory counterclaims which should have been brought in the Florida *Windmere* action. This Court then concluded that since Izumi did not file these claims in the Florida action and the case proceeded to final judgment, Izumi was barred from bringing those claims here. We stated:

Thus, Izumi as a named defendant to the patent infringement claim, and the conceded "real party in interest to the claim of unfair competition, had the capacity to present its entire controversy in the *Windmere* lawsuit. It was, therefore, incumbent upon Izumi to do so or be forever barred.

(Memorandum Opinion, at 13). Therefore, we granted partial summary judgment for Philips, holding that Izumi's antitrust counterclaims were compulsory counterclaims in *Windmere* and, as such, were barred from the instant action.

We recognize that Izumi's three prior motions for reconsideration were denied by this Court on December 22, 1987, May 19, 1989, and May 17, 1990. On all three occasions, we ruled that Izumi had presented nothing that in any way affected the basis for this Court's original ruling. Once again, we find that Izumi's contentions do not refute the wisdom of our prior holding. The fact of Philip's change in position, even if it is true, does not give this Court sufficient ground to reverse its prior ruling that Izumi's claims were compulsory counterclaims which should have been brought in the Florida action. Consequently, Izumi's motions to reconsider is denied.

#### CONCLUSION

For the foregoing reasons, we grant Philips motion to vacate the summary judgment entered by this Court on October 5, 1990, dismissing Philip's unfair competition claim against Sears. We deny Izumi's motion for reconsideration.

/s/

Charles P. Kocoras  
United States District Judge

Dated: Oct. 13, 1992

NOTE: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

**UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

**MISCELLANEOUS DOCKET NO. 361**

U.S. PHILIPS CORPORATION and  
NORTH AMERICAN PHILIPS CORPORATION,  
*Plaintiffs-Respondents,*

v.

SEARS ROEBUCK & CO. and  
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Defendants-Petitioners*

**ON PETITION FOR PERMISSION TO APPEAL**

Before MAYER, *Circuit Judge*, COWEN, *Senior Circuit Judge*,  
and SCHALL, *Circuit Judge*.

SCHALL, *Circuit Judge*.

**ORDER**

Izumi Seimitsu Kogyo Kabushiki Kaisha (Izumi) and Sears Roebuck & Co. (Sears) petition for permission to appeal from certain orders of the United States District Court for the Northern District of Illinois certified for immediate appeal pursuant to 28 U.S.C. § 1292(b), (c)(1) on November 6 1992. U.S. Philips Corporation and North American Philips Corporation (Philips) filed a response stating that they do not oppose the motion, but that they believe that the district court's orders are correct.

This case from the Illinois district court and a related case from a Florida district court have a long and complex procedural history. For purposes of this petition, only the following is

pertinent. Philips sued Windmere Corporation and Izumi in a Florida district court in 1984 for, inter alia, patent infringement, inducement to infringe, and unfair competition under the Lanham Act. Windmere, but not Izumi, counterclaimed against Philips under the antitrust laws. After a jury trial, an appeal, a remand, another trial, and a second appeal, Philips and Windmere settled.<sup>1</sup> On July 31, 1992, this court granted Philips' and Windmere's joint motion to vacate the district court's judgment.

Meanwhile, in 1985 Philips sued Sears and Izumi in the Illinois district court for patent infringement, inducement, and unfair competition. Izumi counterclaimed under the antitrust laws.

The Illinois district court issued various orders over the years concerning whether Izumi was barred from pursuing its antitrust counterclaims in Illinois because it failed to file such a counterclaim in Florida and whether Philips was collaterally estopped from retrying the Lanham Act claims after the Federal Circuit vacated the Florida judgment. In the final analysis, the Illinois district court determined that Izumi was barred from now asserting an antitrust counterclaim and that Philips was not collaterally estopped from retrying the Lanham Act claims. The district court certified its orders and set forth the controlling questions of law:

In the opinion of this court, these Orders granting Summary Judgment against Izumi's antitrust counterclaims involve questions of law as to which there are substantial grounds for differences of opinion and an immediate appeal from such Order may materially advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on

<sup>1</sup> Neither Windmere nor Izumi sought appellate review of the jury's \$6,500 damages award for infringement.



the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al. v. Windmere Corp., et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims.

In the opinion of this Court, this Order reconsidering this Court's prior Summary Judgment against N.A. Philips' unfair competition claims and reinstating those claims involve a controlling question of law as to which there is a substantial ground for difference of opinion, and an immediate appeal from such an Order may materially advance the ultimate termination of this litigation. Such issue involves whether under the law of the 7th Circuit, plaintiff N.A. Philips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al. v. Windmere Corp., et al.*, where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere.

We agree with the parties and the district court that the orders were appropriate for certifications.<sup>2</sup> The questions of law are not relevant just to the particular facts of the case, but could be of importance to the bar in general. Further, as pointed out by Izumi and Sears, there are conflicting circuit views about these issues and uncertainty regarding Supreme Court precedent. Finally, reviewing these interlocutory appeals will determine with finality which claims will proceed to trial and, thus,

<sup>2</sup> A certified order must involve a controlling question of law as to which there is a substantial difference of opinion and an immediate appeal should materially advance the ultimate termination of the litigation. 28 U.S.C. § 1292(b).

may materially advance the ultimate termination of the litigation.

Accordingly,

IT IS ORDERED THAT:

Izumi and Sears' petition for permission to appeal is granted.

Date: Dec. 10, 1992

FOR THE COURT

/s/

Alvin A. Schall  
Circuit Judge

cc: Gary M. Hoffman, Esq.  
Sheldon Karon, Esq.

2

Supreme Court, U.S.

FILED

JAN 28 1993

No. 92-1123

OFFICE OF THE CLERK

IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

—v.—

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS  
CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN and  
WINDMERE CORPORATION,

*Respondents.*

ON PETITION FOR WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

**JOINT BRIEF OF RESPONDENTS IN OPPOSITION**

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New York, New York 10004  
(212) 558-4000

GARRARD R. BEENEY  
SULLIVAN & CROMWELL

*Of Counsel*

January 28, 1993

39 PP

**COUNTERSTATEMENT OF  
QUESTIONS PRESENTED**

1. Did the Court of Appeals hold correctly that Petitioner, a non-party, had no standing to oppose the parties' joint motion to vacate the judgments below?
2. Did the Court of Appeals abuse its discretion in vacating the district court's judgments after it carefully weighed all the facts before it?



# STATEMENT PURSUANT TO RULE 29.1

The parents, subsidiaries and affiliates of Respondents U.S. Philips Corporation, North American Philips Corporation and N.V. Philips Gloeilampenfabrieken, other than those that are wholly owned, are listed below:

Philips Electronics N.V.  
 Associated Radio Finance (Australia) Limited  
 Electric Lamp Manufacturers (Australia) Pty Ltd.  
 Lamp Partnership Agreement  
 Medical Applications Pty Limited  
 Vox Limited  
 Bangladesh Electrical Industries Limited  
 ACEC Lighting  
 Hepta  
 European Development Centre  
 Hypervision Interactive Multimedia Productions  
 Philips and NCT noise cancellation  
 DIP Networks International  
 International Creative Digital Image  
 Pastel  
 Cable and Wire Assemblies  
 CWA Immobilien  
 Devlonics Philips System Integrators  
 Europese Mij voor Fabricage en Verkoop van  
 Gloeilampenonderdelen "E.M.G.O."  
 Philips Coordination Center  
 Philips Matsushita Battery Corporation  
 Telecity CD-I  
 Unicar Travels S.A.  
 Vermont S.A.  
 Bang & Olufsen A/S  
 Leasing og Handelsaktiengesellschaft  
 Bankgesellschaft Heinrich Behncke GmbH  
 BTS-Broadcast Television Systems GmbH  
 Polygram GmbH

Polygram S.A.  
 Polygram Leisure Ltd.  
 Euroventures Deutschland GmbH & Co. KG  
 Grundig Aktiengesellschaft  
 Grundig Verwaltungs-GmbH  
 Norddeutsche Seekabelwerke AG  
 Philips Kommunikations Industrie Aktiengesellschaft  
 Philips Mietsystem GmbH  
 Philips and Acustar Autoelectronics GmbH & Co. KG  
 Philips and Acustar Autoelectronics Verwaltungs-GmbH  
 RKS Kabel-Fernsehen Service GmbH & Co. KG  
 PMA Professional Medical Accessories Vertriebs GmbH  
 Kabel-Fernsehen Hamburg Service Beteiligungs GmbH  
 Kabeltrommel GmbH & Co. KG  
 Kabeltrommel Gesellschaft mbH  
 Tellus Grundstücksverwaltungs-GmbH  
 Fonobras-Distribuidora Fonografica Brasileira Ltda.  
 Peterco do Nordeste Produtos Electricos S.A.  
 Modu-Tronics Inc.  
 Beijing Philips Audio/Video Corporation  
 Car Audio Electronics (China) Company Limited  
 Hua Fei Colour Display Systems Company, Ltd.  
 Shenzhen Shen Fei Laser Optical Systems Company, Ltd.  
 The Sino-Dutch International Engineering Company Ltd.  
 Yangtze Optical Fibre and Cable Company, Ltd.  
 Shenzhen Shen Fei Plastics and Metalware Company Ltd.  
 Philips Semiconductor Corporation of Shanghai  
 Industria Andina de Iluminacion  
 Industrias Centrales del Acero S.A. - "Induacero S.A."  
 El Nasr Company for Electrical and Electronic Apparatus  
 (NEEASAA)  
 Philippine Glass Bulbs, Inc.  
 COGEDEP, Compagnie Generale Europeene de Distribution  
 et d'Edition Phonographique S.A.  
 Compagnie Philips Eclairage  
 La Radiotechnique  
 Communication-Développement

Euro-CD Management  
 Société Industrielle Lenzi  
 Philips Electronique Grand Public  
 Citecable S.A.  
 Laura Hallyday Productions S.A.  
 S.A. d'Etudes et Realisations Nucleaires - S.O.D.E.R.N.  
 Self Music S.A.  
 Service S.A.  
 Sois Villes Lumieres  
 TRT - Telecommunications Radioelectriques et  
 Telephoniques  
 Polygram Records Ltd.  
 Records Manufacturers (Ghana) Ltd.  
 Car Audio Electronics (Hong Kong) Limited  
 Cinepoly Records Co. Ltd.  
 Electronic Devices Limited  
 P&M Properties Ltd.  
 Appliances Service Company Limited  
 Silicon & Software Systems  
 Pye (Ireland) Limited  
 Stromsay Ltd.  
 Hind Lamps Ltd.  
 Music India Ltd.  
 Peico Electronics & Electricals Limited  
 Punjab Anand Lamp Industries Ltd.  
 P.T. Philips Development Corporation  
 P.T. Philips-Ralin Electronics  
 Daco Ltd. (Private Joint Stock Company)  
 Iranian Lamps Ltd. (Private Joint Stock Company)  
 Radioelectric Iran Ltd. (Public Joint Stock Company)  
 Optical Media Storage SpA  
 Euroventures Holding Srl  
 CD Factor Srl  
 Idesit SpA  
 Istud SpA  
 Phidia Srl  
 Villa Sistemi Medicali Srl

Alfautomazione Srl  
 Seifra Coop Srl  
 Chapulin Edizioni Musicali Srl  
 Denshi Media Services Company Limited  
 Japan Interactive Media Inc.  
 K.K. Keystone  
 Kondo Sylvania K.K.  
 Marantz Japan, Inc.  
 Matsushita Electronics Corporation  
 Nihon Tecnico K.K.  
 Nippon Phonogram Co. Ltd.  
 Philips Sensor Technology Corp.  
 PNN Corporation  
 Polydor K.K.  
 Red Bus Enterprise Inc.  
 Sanken-Airpax Co. Ltd.  
 Takahashi Kogei Co. Ltd.  
 Your Records K.K.  
 Philips Consumer Products Yugoslavia Trade Company with  
 limited liability  
 Light Incorporated and Trading S.A.L.  
 European Silicon Structures S.A.  
 Binafon Telecommunications Sdn. Berhad  
 Electronic Systems (Malaysia) Sdn. Bhd.  
 Malaysian Lamps Sendirian Berhad  
 Maltronics Sendirian Berhad  
 Philips Sound Systems (M) Sdn. Bhd.  
 Philips and JVC Video Malaysia Sdn. Nhd.  
 Manufacture Nationale pour la Refrigeration et  
 L'Electronique "MANAR"  
 Maroc Lumiere Industrie S.A.  
 Societe Anonyme Marocaine de Telecommunications  
 "SAMTEL"  
 Compania de Vidrio Industrial, S.A. de C.V.  
 Compania Mexicana de Componentes, S.A. de C.V.  
 Telecomunicaciones y Sistemas Profesionales, S.A.  
 de C.V.

Art Data Institute B.V.  
 ASM Lithography B.V.  
 Bank Mendes Gans N.V.  
 B.V. Grammoservice, Distributiemaatschappij voor  
 Grammofoonplaten  
 Circle Information Systems B.V.  
 Micro Scope B.V.  
 Advanced Metal Forming B.V.  
 Asemco Nederland B.V.  
 BSO Beheer B.V.  
 Escon B.V.  
 IDL Design B.V.  
 Levego B.V.  
 Nederlandse Machinefabriek Alkmaar Holding B.V.  
 Nieuw Rotterdam Beheer N.V.  
 Noble Europe B.V.  
 Medical Trading Company (Metracom) B.V.  
 Solar Electric Power and Lighting Company B.V.  
 European Geographic Technologies B.V.  
 IGA/Instituut voor Gemeentelijke Automatisering B.V.  
 Verspaning en Plaatwerk Holding B.V.  
 Intervest B.V.  
 Phonosongs (V.O.F.)  
 Polygram N.V.  
 Polysongs (V.O.F.)  
 Record Service Benelux (V.O.F.)  
 Wisselsongs (V.O.F.)  
 Amalgamated Finance Ltd.  
 Fluorescent Lamp Partnership  
 New Zealand Electric Lamp Manufacturers Ltd.  
 Associated Electronic Products (Nigeria) Limited  
 Polygram Records Ltd.  
 Philips Kommunikationssysteme und Elektro-  
 installationen Gessellschaft mbH  
 "Philips" Mietfinanzierungs-GmbH  
 Telekabel-Fernsehnitz Graz Betriebsgesellschaft mbH  
 Telekabel-Fernsehnitz Klagenfurt Betriebsgesellschaft mbH

Telekabel-Fernsehnitz Region Baden Betriebsgesellschaft  
 mbH  
 Telekabel-Fernsehnitz Wiener Neustadt/Neunkirchen  
 Betriebsgesellschaft mbH  
 Telekabel Wien Gesellschaft mbH  
 Philips Electrical Industries of Pakistan Limited  
 Philips Lighting Poland  
 Electro Valvula S.A.  
 Industria Electronica de Comunicaciones S.A.  
 Compania General Espanola de Elctricidad  
 Taiwan Lighting Industries Co., Ltd.  
 Taiwan Semiconductor Manufacturing Company Limited  
 Philips Lighting Taiwan, Ltd.  
 Electrical Lamp Manufacturers Thailand Limited  
 Windmill Company Ltd.  
 Avex A.S.  
 Societe Tunisienne d'Eclairage  
 Systel  
 Birlesik Aydinlatma Sanayi ve Ticaret A.S.  
 Turk Philips Aydinlatma Sanayi ve Ticaret Anonim Sirketi  
 Turk Philips Sanayi Anonim Sirketi "Philisan"  
 Estas EV Cinazlari Sanayi ve Ticaret A/S  
 Turk Philips Ticaret Anonim Sirketi  
 Alto Music Ltd.  
 Cedarwood Music Ltd.  
 Channel 5 Video Distribution Ltd.  
 Debonaire Music Ltd.  
 D2B Systems Company Limited  
 Maxwell Multi Media Limited  
 Spin U.K. Limited  
 Crompton Parkinson (Lighting) Ltd.  
 European Cables Ltd.  
 F.F.R.R. Music Ltd.  
 F.F.R.R. Records Ltd.  
 Go Discs Ltd.  
 Gralto Music Ltd.  
 Kempston (1987) Ltd.



Pageant Music Ltd.  
 Paragon Publicity & Public Relations Ltd.  
 Philips Lighting Manufacturing Ltd.  
 Spencer Davis Music Ltd.  
 Tiger Music Ltd.  
 Validfirst Limited  
 Consolidated Cable Investments (Pty) Ltd.  
 PEC Investments (Proprietary) Limited  
 Philips Electronics Holding Limited  
 Philips Electronics (South Africa) (Proprietary) Limited  
 South African Philips (Pty) Limited  
 Swiss Office Machinery Company (Pty) Ltd.  
 Daishin and Philips Lighting Autolmaps Co., Ltd.  
 A.P. Radio, Goteborg  
 Grammo Rack Service AB  
 Dick James Music AG  
 Discorack AG  
 Fasselac AG  
 Flammesco AG  
 Glühlampenfabrik Gloria AG  
 Studer and Philips CD Systems AG  
 Laser Magnetic Storage International Company  
 Philips and Du Pont Optical Company  
 Polygram Music Publishing Inc.  
 Polygram Songs Inc.  
 Polygram Tunes Inc.  
 The Educational Video Group Inc.  
 Blockbuster Entertainment Corp.  
 Whittle Communications  
 Fonobras-Distribuidora Fonographica Brasileira Ltd.  
 COGEDEP, Compagnie Generale Europeenede  
 Distribution et d'Édition Phonographiques S.A.  
 Self Music S.A.  
 Cinepoly Records Co., Ltd.  
 Music India Ltd.  
 Chapulin Edizioni Musical, S.r.l.  
 K.K. Keystone

Polydor K.K.  
 Your Records K.K.  
 Polygram N.V.  
 Record Service Benelux (V.O.F.)  
 Adrawing Ltd.  
 Alto Music Ltd.  
 Cedarwood Music Ltd.  
 Debonaire Music Ltd.  
 F.F.R.R. Music Ltd.  
 F.F.R.R. Records Ltd.  
 Go! Discs Ltd.  
 Gralto Music Ltd.  
 Pageant Music Ltd.  
 Paragon Publicity & Public Relations Ltd.  
 Spencer Davis Music Ltd.  
 Tiger Music Ltd.  
 Grammo Rack Service AB  
 Discotack-Nco A.G.  
 PEC Musiikkitukku OY  
 Remark Records S.a.r.l.  
 Remark Music S.a.r.l.  
 Midi Minuit S.A.  
 Euromusique S.A.  
 GMT Productions S.A.  
 Oui-FMC S.A.  
 NOE Productions S.a.r.l.  
 R. Film S.a.r.l.  
 Ryan Jones S.a.r.l.  
 Pan Européenne de Diffusion Cinématographique S.A.  
 Kalssik Radio GmbH & Co. KG  
 Klassik Radio Geschäftsführung GmbH  
 IPS Records Ltd.  
 Irish Record Factors Ltd.  
 Polymond S.p.A.  
 K.K. Japan Record Sales Network  
 Melsat Inc.  
 Sirius Music Publishing K.K.

Japan Phonograph Record Diffusion K.K.  
 Video Pack Nippon Co., Ltd.  
 FM Tokyo K.K.  
 Tokyo Denka Co., Ltd.  
 Satellite Digital Audio Broadcasting Co.  
 News Record K.K.  
 K.K. Kitty Music  
 Music Service Oslo A/S  
 Plateselskapet A/S  
 Trutons Music (partnership)  
 Teal Record Company (Proprietary) Limited  
 Polygram Records Ltd.  
 Eurogram S.A.  
 Total Distribucion S.A.  
 Edificios Balcon S.A.  
 Virgin Sonet Försäljnings AB  
 Stockholm Records AB  
 Arigram Record Service AB  
 Stockholm Music AB  
 Decca Records Taiwan Ltd.  
 The Video Label (limited partnership)  
 M&G Records Ltd.  
 Big Life Records Ltd.  
 WTTV Limited  
 Eros Music Systems Ltd.  
 Morrison Hotel Music Limited  
 DEF American Limited  
 Partizan Limited  
 Really Useful Holdings Limited  
 Gee Street Music Limited  
 Gee Street Records Limited  
 Consortium for independent Broadcasting Limited  
 Working Title Group Limited  
 Working Title (Developments) Limited  
 Big Picture Productions Limited  
 Dominic Music Limited  
 Metropolitan Entertainment Co., Inc.

Interscope Holding Corporation  
 Gramercy Pictures J/V  
 London Records (general partnership)  
 London Music (general partnership)  
 London Publishing (general partnership)  
 Songs of London (general partnership)  
 Great Entertainment Merchandise, Inc.

The parents, subsidiaries and affiliates of Respondent Windmere Corporation, other than those that are wholly owned, are listed below:

Durable Electrical Metal Factory, Ltd.  
 Durable Belson Manufactory, Ltd.  
 Topfair Trading Company, Ltd.  
 Tower Switches, Ltd.  
 Tower-Norstat, Ltd.  
 Paragon Industries  
 Parawind Limited  
 Win-Tron Electronics, Ltd.

## TABLE OF CONTENTS

	Page
COUNTERSTATEMENT OF QUESTIONS PRESENTED . . . . .	i
STATEMENT PURSUANT TO RULE 29.1 . . . .	ii
TABLE OF AUTHORITIES . . . . .	xiv
CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED . . . . .	1
STATEMENT OF THE CASE . . . . .	2
SUMMARY OF ARGUMENT . . . . .	4
ARGUMENT . . . . .	4
I. PETITIONER LACKS STANDING . . . . .	4
II. THE DECISION BELOW IS FACT- BOUND AND IS IN FULL ACCORD WITH THIS COURT'S DECISIONS AND WITH 28 U.S.C. § 2106 . . . . .	5
III. THE PETITION MISCHARACTERIZES THE OPINION BELOW: THERE IS NO IMPORTANT ISSUE OR CONFLICT AMONG THE CIRCUITS WARRANTING REVIEW . . . . .	8
CONCLUSION . . . . .	11



## Page

## APPENDIX:

Petition for Permission to Appeal Pursuant to 28 U.S.C. § 1292(b) and (c) From Orders Certified by the United States District Court for the Northern District of Illinois, <i>U.S. Philips Corp. v. Sears</i> , dated November 16, 1992 . . . . .	A1
Motion to Grant, Vacate and Remand on Grounds of Mootness, <i>Continental Casualty Co. v. Fibreboard Corp.</i> , 113 S. Ct. 399 (1992) (No. 91-1993), filed September 30, 1992 . . . . .	B1
Joint Motion to Grant Certiorari, Vacate Judgment of Court of Appeals and Remand with Directions to Vacate Judgment of District Court on Grounds of Mootness, <i>City Gas Co. of Fla. v. Consolidated Gas Co. of Fla.</i> , 111 S. Ct. 130 (1991) (No. 90-953), dated February 27, 1991 . . . . .	C1

## TABLE OF AUTHORITIES

CASES	Pages
<i>Alabama v. Davis</i> , 446 U.S. 903 (1980) . . . . .	6
<i>Banks v. Chicago Grain Trimmers Ass'n</i> , 390 U.S. 459 (1968), <i>cert. granted</i> , 389 U.S. 813 (1967) . . . . .	5
<i>Cardinal Chem. Co. v. Morton Int'l, Inc.</i> , 113 S. Ct. 52 (1992) . . . . .	9
<i>City Gas Co. of Fla. v. Consolidated Gas Co. of Fla.</i> , 111 S. Ct. 1300 (1991) . . . . .	5, 6, 7
<i>Clarendon Ltd. v. Nu-West Indus.</i> , 936 F.2d 127 (3d Cir. 1991) . . . . .	9
<i>Clark Equip. Co. v. Lift Parts Mfg. Co.</i> , 972 F.2d 817 (7th Cir. 1992) . . . . .	10
<i>Continental Casualty Co. v. Fibreboard Corp.</i> , 113 S. Ct. 399 (1992) . . . . .	5, 6
<i>Dayton Bd. of Educ. v. Brinkman</i> , 433 U.S. 406 (1977) . . . . .	7
<i>Deakins v. Monaghan</i> , 484 U.S. 193 (1988) . . . . .	6, 7
<i>Department of the Treasury v. Galioto</i> , 477 U.S. 556 (1986) . . . . .	6

	Pages
<i>International Union, UAW, Local 283 v. Scofield</i> , 382 U.S. 205 (1965) . . . . .	5
<i>Karcher v. May</i> , 484 U.S. 72 (1987) . . . . .	5, 7
<i>Lake Coal Co. v. Roberts &amp; Schaefer Co.</i> , 474 U.S. 120 (1985) . . . . .	6
<i>In re Memorial Hosp. of Iowa County, Inc.</i> , 862 F.2d 1299 (7th Cir. 1988) . . . . .	9, 10
<i>NAACP v. New York</i> , 413 U.S. 345 (1973) . . . . .	4
<i>Nestle Co. v. Chester's Mkt., Inc.</i> , 756 F.2d 280 (2d Cir. 1985) . . . . .	9, 10
<i>Onwuasoanya v. United States</i> , 488 U.S. 920 (1988) . . . . .	6
<i>Ringsby Truck Lines, Inc. v. Western Conference of Teamsters</i> , 686 F.2d 720 (9th Cir. 1982) . . . . .	9
<i>Russoniello v. Olagues</i> , 484 U.S. 806 (1987) . . . . .	6
<i>Scherk v. Alberto-Culver Co.</i> , 417 U.S. 506 (1974) . . . . .	7
<i>Tulare Lake Canal Co. v. United States</i> , 459 U.S. 1095 (1983) . . . . .	6

	Pages
<i>United States v. Munsingwear, Inc.</i> , 340 U.S. 36 (1950) . . . . .	6, 7
<b>STATUTES AND RULES</b>	
28 U.S.C. § 1254(1) . . . . .	5
28 U.S.C. § 1292(b) . . . . .	3
28 U.S.C. § 2106 . . . . .	1, 4, 7
<b>OTHER AUTHORITIES</b>	
Robert L. Stern et al., <i>Supreme Court Practice</i> (6th ed. 1986) . . . . .	5
Charles A. Wright et al., <i>Federal Practice and Procedure</i> (2d ed. 1984) . . . . .	6, 10

IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1992

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN  
PHILIPS CORPORATION, N.V. PHILIPS  
GLOEILAMPENFABRIEKEN and WINDMERE  
CORPORATION,  
*Respondents.*

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ON PETITION FOR WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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**JOINT BRIEF OF RESPONDENTS IN OPPOSITION**

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Respondents U.S. Philips Corporation, North American Philips Corporation, N.V. Philips Gloeilampenfabrieken (collectively, "Philips") and Windmere Corporation ("Windmere"), which together constitute all parties to the judgments at issue, respectfully request that the petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit be denied.

**CONSTITUTIONAL PROVISIONS AND  
STATUTES INVOLVED**

Contrary to the claims made in the Petition, this Petition involves the interpretation of 28 U.S.C. § 2106 (1982), which states:



The Supreme Court or any other court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment, decree, or order of a court lawfully brought before it for review, and may remand the cause and direct the entry of such appropriate judgment, decree, or order, or require such further proceedings to be had as may be just under the circumstances.

### STATEMENT OF THE CASE

Petitioner was not a party to the claims or judgments at issue, the subsequent appeal, or the settlement that resolved this entire dispute and rendered the appeal moot. Nor is Petitioner a party to the unfair competition claims presently pending in Illinois. Because of Petitioner's tactical decision to appear only after settlement mooted the appeal (Petition ("Pet.") at A3-5)<sup>1</sup>, and its attenuated connection to the judgments at issue, the Court of Appeals ruled that Petitioner did not have standing to oppose the parties' joint motion to vacate the district court's judgments (Pet. at A5). Petitioner has not sought certiorari regarding that determination or leave of this Court to intervene, and, therefore, has no standing to seek certiorari on the question presented.

Respondents also disagree with Petitioner's factual statement of the case, insofar as is material to disposition of the Petition, in the following particulars:

1. There was no "active and substantial involvement" (Pet. at 4) by Petitioner below. Before the district court, Petitioner denied that it was a party and did not appear by counsel at the trial (Pet. at A3). Before the Court of Appeals, Petitioner filed no notice of appearance or brief, its

<sup>1</sup> Citations preceded by "Pet. at A" are to the Appendix to the Petition; citations preceded by letter designation are to the appendices to this Joint Brief of Respondents in Opposition.

prior counsel identified Windmere as the only "real party in interest," and Petitioner first sought to intervene only after all parties had settled all outstanding claims (Pet. at A2-4). Petitioner's alleged payment of Windmere's defense costs hardly constitutes "active and substantial involvement."

2. As the Court of Appeals noted, but as the Petition obscures,<sup>2</sup> Petitioner is not the party in Illinois that is attempting to use collaterally the unfair competition judgment vacated below. In the Illinois action, Philips sued Sears Roebuck & Co. ("Sears"), not Petitioner, for unfair competition, and it was Sears, not Petitioner, who asserted collateral estoppel (Pet. at A4). Thus, Petitioner is not only a stranger to the judgments at issue here, but it also is not the party that is attempting to use one of those judgments collaterally.

3. Although Petitioner mentions that the Court of Appeals, pursuant to 28 U.S.C. § 1292(b), has agreed to decide whether the vacated judgment has any collateral estoppel effect against Philips (Pet. at 5 n.5), the Petition treats the issue as if it already had been settled: "[t]his practice [of vacating judgments] permits unsuccessful litigants to avoid the preclusive affects [sic] of final judgments . . . ." (Pet. at 6). The Petition thus bases its primary argument concerning the need for review on the alleged resolution of an issue yet to be decided. Moreover, in its joint brief to the Court of Appeals, dated November 16, 1992, Petitioner and Sears made the opposite argument: "collateral estoppel continues to apply in the circumstances presented here" (A3).

<sup>2</sup> Petitioner alleges "Philips brought a similar action for patent infringement and unfair competition against Izumi and another of its distributors, Sears" (Pet. at 3), but neglects to disclose that the unfair competition claim was asserted only against Sears.

## SUMMARY OF ARGUMENT

Petitioner was not a party to either the proceedings below or the attempt to use one of the vacated judgments collaterally, and the Court of Appeals determined that Petitioner "does not have standing" (Pet. at A5). Under settled precedent, Petitioner may seek review of the question it presents only by petitioning for a writ of certiorari on the standing issue or by moving to intervene before this Court. Petitioner has done neither. Petitioner may not ignore this settled procedure before seeking review.

The question presented is in any event patently unworthy of the Court's review. The decision below is completely fact-bound and settled no important issue having wide applicability to other litigants. The decision is also in full accord with both this Court's decisions and the power vested in appellate courts to "vacate . . . any judgment . . . as may be just under the circumstances." 28 U.S.C. § 2106 (1982).

## ARGUMENT

### I.

#### PETITIONER LACKS STANDING.

After examining, *inter alia*, Petitioner's relationship to the claims at issue here and those in Illinois, Petitioner's prior denial of its status as a party, and its delay in seeking to intervene until after the parties' settlement mooted the appeal, the Court of Appeals determined that Petitioner lacked standing to oppose the parties' joint motion to vacate the judgments (Pet. A3-5).<sup>3</sup> Thus, Petitioner could seek review either by petitioning for certiorari on the standing

<sup>3</sup> As this Court has held, "the application [to intervene] must be 'timely.' If it is untimely, intervention must be denied." *NAACP v. New York*, 413 U.S. 345, 365 (1973).

issue, *International Union, UAW, Local 283 v. Scofield*, 382 U.S. 205, 209 (1965), or by moving to intervene for the purposes of filing its petition. *Banks v. Chicago Grain Trimmers Ass'n*, 390 U.S. 459 (1968), *cert. granted*, 389 U.S. 813 (1967); Robert L. Stern et al., *Supreme Court Practice* 46-47, 340 (6th ed. 1986) (discussing *Banks*).

Petitioner followed neither course, ignored the determination below, and simply filed the petition as if it were a party to the appeal. While Petitioner cites both *Scofield* and *Banks* (Pet. at 15), neither opinion supports Petitioner's decision to disregard both the determination that it lacked standing and 28 U.S.C. § 1254(1), which permits review by writ of certiorari upon the petition of any "party" to the case below. *See Karcher v. May*, 484 U.S. 72, 77 (1987) ("[W]e have consistently applied the general rule that one who is not a party or has not been treated as a party to a judgment has no right to appeal therefrom.")

Petitioner does not have standing to seek review of the question presented, and the Court lacks jurisdiction to grant the writ.

### II.

#### THE DECISION BELOW IS FACT-BOUND AND IS IN FULL ACCORD WITH THIS COURT'S DECISIONS AND WITH 28 U.S.C. § 2106.

Respondents, the only parties to the judgments at issue, settled all disputes and exchanged general releases after the appeal had been fully briefed (Pet. at A31-35). Respondents then filed a joint motion to dismiss the appeal as moot and to vacate the district court judgments. These are precisely the facts that have repeatedly led this Court to vacate lower court judgments.

In *Continental Casualty Co. v. Fibreboard Corp.*, 113 S. Ct. 399 (1992), *City Gas Co. of Fla. v. Consolidated Gas*



*Co. of Fla.*, 111 S. Ct. 1300 (1991) and *Lake Coal Co. v. Roberts & Schaefer Co.*, 474 U.S. 120 (1985), the parties settled all disputes (B2, C3). In *Continental Casualty and City Gas*, this Court then granted the parties' joint motion to vacate the judgments below. In *Lake Coal*, the Court, apparently *sua sponte*, vacated the judgment of the court of appeals after "complete settlement of the underlying causes of action." 474 U.S. at 120. Moreover, in *Deakins v. Monaghan*, 484 U.S. 193, 200 (1988), the respondent withdrew its claim for injunctive relief before the federal courts and, over petitioner's objection, this Court vacated that portion of the court of appeals judgment addressing the withdrawn claim, holding that

[w]hen a claim is rendered moot while awaiting review by this Court, the judgment below should be vacated with directions to the District Court to dismiss the relevant portion of the complaint. See *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950).

See also *Onwuasoanya v. United States*, 488 U.S. 920 (1988); *Russoniello v. Olagues*, 484 U.S. 806 (1987); *Department of the Treasury v. Galioto*, 477 U.S. 556, 559-60 (1986); *Tulare Lake Canal Co. v. United States*, 459 U.S. 1095 (1983); *Alabama v. Davis*, 446 U.S. 903, 903-04 (1980); see generally 13A Charles A. Wright et al., *Federal Practice and Procedure* § 3533.10, at 433-35 (2d ed. 1984).

These authorities make clear that the opinion below clearly does not "conflict[ ] with precedent of this Court" (Pet. at 12). Petitioner manufactures a conflict only by speculating about the record in *City Gas Co.*, ignoring the other authorities cited above, and misreading *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950).

In *Munsingwear*, this Court stated that its "established practice" in dealing with appeals that have become moot "is to reverse or vacate the judgment below." 340 U.S. at 39.

Petitioner's construction of *Munsingwear*—that judgments may be vacated only when a case becomes moot due to "happenstance" rather than the affirmative action of the parties (Pet. at 12-14)—cannot possibly be reconciled with the Court's citation of *Munsingwear* as authority for vacating judgments when an action was settled (*City Gas Co.*), or when a party mooted the appeal by withdrawing its claim (*Deakins*).

*Karcher v. May*, 484 U.S. 72 (1987), also does not support Petitioner's argument. In *Karcher*, an appeal was taken on behalf of a state legislature by individuals in their capacity as speaker and president. When they lost their legislative posts, their successors withdrew the appeal. The Court declined to grant the motion of the original legislators to vacate the judgment below because the appeal ended when their successors "declined to pursue" it. 484 U.S. at 83. *Karcher* simply recognized that *Munsingwear* does not apply when individuals who no longer represent a party seek vacation of a judgment. *Id.*

The decision below also reflects the broad discretion granted appellate courts under 28 U.S.C. § 2106:

The Supreme Court or any other court of appellate jurisdiction may affirm, modify, vacate, set aside or reverse any judgment . . . as may be just under the circumstances.<sup>4</sup>

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<sup>4</sup> Although 28 U.S.C. § 2106 was neither cited to or by the Court of Appeals, respondents are "entitled under our precedents to urge any grounds which would lend support to the judgment below." *Dayton Bd. of Educ. v. Brinkman*, 433 U.S. 406, 419 (1977); see also *Scherk v. Alberto-Culver Co.*, 417 U.S. 506, 525 (1974) (Douglas J., dissenting) ("A respondent, however, has the right to urge any argument to support the judgment in his favor . . . .")



The Court of Appeals weighed many of the facts and circumstances of this litigation that has lasted nearly a decade, and determined that vacatur was "appropriate" (Pet. at A6). The exercise of the Court of Appeals' wide discretion presents no occasion for review by this Court.

### III.

#### THE PETITION MISCHARACTERIZES THE OPINION BELOW: THERE IS NO IMPORTANT ISSUE OR CONFLICT AMONG THE CIRCUITS WARRANTING REVIEW.

Although Petitioner suggests that the opinion below reflects a practice of always vacating judgments upon settlement (*see, e.g.*, Pet. at 6), the Court of Appeals twice stated otherwise: "we do not hold that vacatur must always be granted" (Pet. at A6) and "we do not view vacatur as automatic" (Pet. at A5). Petitioner apparently contends that these clear pronouncements should be disregarded as superfluous: "[I]t is difficult to imagine a scenario where the Court [of Appeals] would not automatically grant vacatur following settlement" (Pet. at 5 n.4). Whatever the limits of Petitioner's imagination, the Court of Appeals must be taken at its word. The opinion clearly establishes that while "vacatur is the general rule" (Pet. at A6), the facts and circumstances of each case will be dispositive.

Only by exaggerating the breadth of the decision below can Petitioner predict dire consequences from its application: "Thus, under the Federal Circuit's practice, even though a district court may enter final judgment that a patent or trademark is invalid, full and fair competition could be inhibited by fear that such judgment can later be nullified by private agreements." (Pet. at 7). No patent or trademark was involved in the judgments vacated here, and if Petitioner is right about the "practice" of the Court of Appeals with

respect to such issues, that concern can be resolved in a case which actually raises them.

Petitioner also misapprehends the significance of *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 113 S. Ct. 52 (1992). The Court in *Cardinal* agreed to review the appellate court's vacation of a judgment of patent invalidity when affirming a judgment of noninfringement—a decision by the lower court not to address an issue the parties are actively litigating which does not affect the result. Whatever the merits of the Court's procedure in *Cardinal*, it is irrelevant here.

By mischaracterizing the opinion below and exaggerating the decisions of other courts of appeals, Petitioner manufactures "a clear-cut conflict among" the courts of appeals on an "issue of importance to the administration of justice" (Pet. at 6). While the courts of appeals clearly differ on whether the interests of the parties in vacating a judgment generally should prevail over the public interests in preserving precedents, no court has explicitly adopted an inflexible rule either that judgments may never be vacated upon settlement or that they always must be.<sup>5</sup>

Although Petitioner cites *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), for the proposition that there is a "clear-cut" conflict between the decision below and decisions of the Court of Appeals for the

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<sup>5</sup> See *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 281 (2d Cir. 1985) (court "generally follow[s] the rule that district court judgments that become moot pending appeal must be vacated"); *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720, 722 (9th Cir. 1982) (conflicting interests must be balanced in each case); *Clarendon Ltd. v. Nu-West Indus.*, 936 F.2d 127, 129 (3d Cir. 1991) ("routine[ ]" practice to decline to vacate).

Seventh Circuit (Pet. at 10-11), *Memorial Hospital* has recently been questioned by a panel of the Seventh Circuit as "difficult to reconcile . . . with Supreme Court precedent on the subject." *Clark Equip. Co. v. Lift Parts Mfg. Co.*, 972 F.2d 817, 819 n.1 (7th Cir. 1992).

Moreover, the only question presented by Petitioner concerns the vacation of two judgments entered after a jury verdict. The Petition presents no issue regarding any other judicial act that may serve to guide other future litigants, such as the publishing of an opinion. While in the Illinois action, Sears made use of the unfair competition judgment (in arguing collateral estoppel with respect to a claim *not* brought against Petitioner), whether the vacation of that judgment has any effect in the Illinois case is precisely the issue now pending before the Court of Appeals.

There is presently no significant public interest or, indeed, any interest of Petitioner, in preserving the judgments at issue. While Petitioner would pretend to stand in the shoes of Sears, the party attempting to use the judgment collaterally in Illinois, it does not. Significantly, Sears did not attempt to intervene here or below.

The judgments vacated below concern claims asserted among respondents who have settled all their differences, executed general releases, and moved to have those judgments vacated. In granting the motion to vacate, the Court of Appeals properly balanced a number of circumstances, noting that the Philips companies, in giving up their right to appeal the judgments, "are entitled to rely on our precedent" supporting the motion to vacate (Pet. at A6). As other courts have recognized, any other result would discourage settlement on appeal of private disputes. *See, e.g., Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 283 (2d Cir. 1985). *See generally* 13A Charles A. Wright et al., *Federal Practice and Procedure* § 3533.10, at 432 (2d ed. 1984).

The petition presents no occasion for the exercise of this Court's discretionary jurisdiction.

### CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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January 28, 1993

IN THE  
United States Court of Appeals  
FOR THE FEDERAL CIRCUIT

U.S. PHILIPS CORPORATION  
and NORTH AMERICAN  
PHILIPS CORPORATION,

*Plaintiffs-Counterdefendants-  
Respondents,*

v.

SEARS ROEBUCK & CO. and  
IZUMI SEIMITSU KOGYO  
KABUSHIKI KAISHA,

*Defendants-Counterplaintiffs-  
Petitioners.*

MISC. DOCKET NO.

PETITION FOR PERMISSION TO APPEAL  
PURSUANT TO 28 U.S.C. § 1292(b) and (c)  
FROM ORDERS CERTIFIED BY THE  
UNITED STATES DISTRICT COURT FOR  
THE NORTHERN DISTRICT OF ILLINOIS

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Dated: November 16, 1992



**B. The Issue As To Reinstatement Of N.A. Philips' Unfair Competition Claims**

In its October 13, 1992 opinion, the district court determined that collateral estoppel could no longer bar N.A. Philips' unfair competition claims because the Florida judgment had been vacated. It based its reinstatement of N.A. Philips' claims on a prediction that Seventh Circuit law would never give collateral estoppel effect to a vacated judgment.<sup>16</sup> The effect of this ruling is to give N.A. Philips a "third bite at the apple" by having the opportunity to try its unfair competition claims once again, even though two separate juries have already found against N.A. Philips on every substantive element of its claims. This would be a costly waste of judicial resources.

In *Bates v. Union Oil Co.*, 944 F.2d 647, 650-51 (9th Cir. 1991), *cert. denied*, 112 S. Ct. 1761 (1992), the Ninth Circuit held that in some circumstances, a vacated judgment *can* be given collateral estoppel effect where the judgment in the first case was vacated because of the parties' settlement. Although the Seventh Circuit has not ruled on the precise issue involved here -- whether to continue to give collateral

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(Footnote continued)

(Emphasis added). Thus, only Izumi's claims against U.S. Philips would be prohibited because only U.S. Philips was an opposing party against Izumi in *Windmere*.

<sup>16</sup> Seventh Circuit law applies to this question because the judgments which were vacated involved non-patent claims only. See *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1573-76 (Fed. Cir. 1984) (*per curiam*).

estoppel effect to another circuit's judgment vacated because the parties settled on appeal -- its prior case law, which unequivocally states the Seventh Circuit's opposition to vacatur,<sup>17</sup> strongly suggests that the Seventh Circuit would adopt the *Bates* rule and hold that collateral estoppel continues to apply in the circumstances presented here.<sup>18</sup> At a minimum, there is a substantial basis for difference of opinion on this issue.

**III.**

**AN INTERLOCUTORY APPEAL  
MAY MATERIALLY ADVANCE  
THE TERMINATION OF THIS LITIGATION**

In certifying its Orders for immediate appeal, the district court found that an immediate appeal may materially advance the termination of the litigation for two reasons. First, the district court found that because an immediate appeal "will determine with finality which claims will proceed to trial," a decision by this Court now "will avoid the potential for multiple trials at considerable expense if any of this Court's ruling[s] on the questions are found to be in error." It is precisely to avoid such wasted time and expense that the

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<sup>17</sup> See *In re Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1300 (7th Cir. 1988).

<sup>18</sup> The district court relied upon *Pontarelli Limousine, Inc. v. City of Chicago*, 929 F.2d 339 (7th Cir. 1991), to support its position that the Seventh Circuit would not give collateral estoppel effect to a vacated judgment. In *Pontarelli*, however, the Seventh Circuit merely held that under the full faith and credit statute, it was bound to apply Illinois state law to the question of the collateral estoppel effect of a vacated state court judgment. State law is not implicated in this case.

interlocutory appeal procedure exists. *See, e.g., United States v. Connolly*, 716 F.2d 882, 885 (Fed. Cir. 1983), *cert. denied*, 465 U.S. 1065 (1984); *see also Shore v. Parklane Hosiery Co.*, 565 F.2d 815, 818 (2d Cir. 1977), *aff'd*, 439 U.S. 322 (1979) (permitting an interlocutory appeal from an order denying summary judgment by virtue of collateral estoppel, "in the interests of avoiding a wasteful and unnecessary trial"); 16 Charles A. Wright, *et al.*, *Federal Practice and Procedures* § 3930 (1977 & Supp. 1992) (the "advance termination requirement" is satisfied when courts determine that an appeal could result in "the possibility of avoiding trial proceedings, or at least curtailing and simplifying pretrial or trial").

Second, the district court stated that resolution of these issues by this Court could potentially enhance the possibility of settlement between the parties. Numerous courts have recognized the strong judicial policy favoring the settlement of disputes and avoiding costly and time-consuming litigation. *See, e.g., Class Plaintiffs v. City of Seattle*, 955 F.2d 1268, 1276 (9th Cir. 1992), *cert. denied*, 61 U.S.L.W. 3155 (U.S. Nov. 2, 1992); *United States v. Baus*, 834 F.2d 1114, 1127 (1st Cir. 1987); *In re Corrugated Container Antitrust Litigation*, 643 F.2d 195, 207 (5th Cir. 1981).

IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1992

---

CONTINENTAL CASUALTY COMPANY,  
*Petitioner,*

v.

FIBREBOARD CORPORATION,  
*Respondent.*

---

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

---

MOTION TO GRANT, VACATE AND REMAND  
ON GROUNDS OF MOOTNESS

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No. 91 - 1993

IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1992

CONTINENTAL CASUALTY COMPANY,  
*Petitioner,*

v.

FIBREBOARD CORPORATION,  
*Respondent.*

ON PETITION FOR A WRIT OF CERTIORARI  
 TO THE UNITED STATES COURT OF APPEALS  
 FOR THE NINTH CIRCUIT

MOTION TO GRANT, VACATE AND REMAND  
 ON GROUNDS OF MOOTNESS

A petition for a writ of certiorari to the U.S. Court of Appeals for the Ninth Circuit is currently pending in this case. The sole issue raised in that petition is the correctness of the Ninth Circuit's decision to apply Texas law in determining whether petitioner Continental Casualty was obliged to indemnify respondent Fibreboard Corp. for punitive damages awarded in one Texas civil case - *Cimino v. Raymark Indus., Inc.*, 86-0456-CA (E.D. Tex.). See pet. App. 28a (specifying the relevant rulings that the Ninth Circuit affirmed).

That issue is now moot, because of a settlement reached in *Cimino* between petitioner Continental and the plaintiffs. In that settlement, Continental agreed to make various specified payments directly to the *Cimino* plaintiffs, who

withdrew all other claims against Fibreboard and Continental. This settlement was approved on September 25, 1992. The effect of this settlement is to moot the question of Continental's liability to Fibreboard for punitive damages previously awarded in *Cimino*.

It follows that the appropriate action for this Court to take at this time would be to grant a writ of certiorari, vacate the decision below, and remand for dismissal of this case, under *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950). See, e.g., *City Gas Co. of Florida v. Consolidated Gas Co. of Florida, Inc.*, 111 S. Ct. 1300 (1991); 13A C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 3533.10, at 434 n.31 (citing examples).

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\*Counsel of Record

IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1990

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CITY GAS COMPANY OF FLORIDA,  
*Petitioner,*

v.

CONSOLIDATED GAS COMPANY OF  
FLORIDA, INC.,  
*Respondent.*

---

PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE ELEVENTH CIRCUIT

---

JOINT MOTION TO GRANT CERTIORARI,  
VACATE JUDGMENT OF COURT OF APPEALS  
AND REMAND WITH DIRECTIONS TO VACATE  
JUDGMENT OF DISTRICT COURT ON  
GROUNDS OF MOOTNESS

---

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1990

CITY GAS COMPANY OF FLORIDA,  
*Petitioner,*

v.

CONSOLIDATED GAS COMPANY OF  
 FLORIDA, INC.,  
*Respondent.*

PETITION FOR A WRIT OF CERTIORARI  
 TO THE UNITED STATES COURT OF APPEALS  
 FOR THE ELEVENTH CIRCUIT

JOINT MOTION TO GRANT CERTIORARI,  
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 GROUNDS OF MOOTNESS

The parties<sup>1</sup> to this proceeding jointly move the Court to grant certiorari, vacate the judgment of the Court of Appeals for the Eleventh Circuit and remand the case to the court of appeals with instructions to vacate the district court's August 14, 1987 Final Judgment and July 24, 1987 Findings

<sup>1</sup> The statement of City Gas Company of Florida pursuant to Supreme Court Rule 29.1 can be found at page 1, note 1 of its Petition. Pursuant to that rule, Consolidated Gas Company of Florida, Inc. states that it has no parents or subsidiaries.

of Fact and Conclusions of Law and remand for dismissal of this action with prejudice.

This case has been settled amicably by the parties and general releases have been exchanged. The parties' settlement agreement obligates respondent to file a Satisfaction of Judgment if the Final Judgment entered by the district court remains extant and prohibits respondent from initiating proceedings before the Florida Public Service Commission so as to invoke the injunctive relief granted by the district court. The case is, accordingly, moot. As this Court noted in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39 (1950), "[t]he established practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here or pending our decision on the merits is to reverse or vacate the judgment below and remand with a direction to dismiss." See, e.g., *Onwuasoanya v. United States*, 488 U.S. 920 (1988); *Deakins v. Monaghan*, 484 U.S. 193, 200 (1988) ("When a claim is rendered moot while awaiting review by this Court, the judgment below should be vacated with directions to the District Court to dismiss the relevant portion of the complaint"); *Russoniello v. Olagues*, 484 U.S. 806 (1987); *Tulare Lake Canal Co. v. United States*, 459 U.S. 1095 (1983); *Alabama v. Davis*, 446 U.S. 903 (1980). See generally 13A C. Wright et al., *Federal Practice and Procedure* § 3533.10 at 433-35 (1984). In accordance with this authority, the parties respectfully request that this Court grant certiorari, vacate the judgment of the court of appeals and remand the case with instructions that the court of appeals vacate the Final Judgment and Findings of Fact and Conclusions of Law entered by the district court



on the grounds of mootness and remand to the district court for dismissal with prejudice.

Respectfully submitted,

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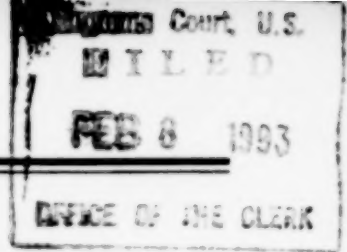
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IN THE

*Supreme Court of the United States*

OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

v.

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION, AND  
N.V. PHILIPS GLOEILAMPENFABRIEKEN  
and  
WINDMERE CORPORATION,

*Respondents.*

PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

REPLY OF PETITIONER TO THE JOINT  
BRIEF OF RESPONDENTS IN OPPOSITION

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February 8, 1993

IN THE  
**Supreme Court of the United States**

October Term, 1992

---

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner*

v.

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION, and  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,

and

WINDMERE CORPORATION

*Respondents*

**REPLY OF PETITIONER TO THE JOINT  
BRIEF OF RESPONDENTS IN OPPOSITION**

1. Although Respondents argue that there is no conflict among the circuits warranting review, they acknowledge that the practice of the courts of appeals on whether a district court judgment should be vacated at the request of parties settling the case on appeal ranges from (1) routinely *declining* to vacate the district court judgment (the Seventh, Third, and District of Columbia Circuits) to (2) balancing the private interest in vacatur against the public interest in preserving the judgment (the Ninth Circuit) to (3) routinely vacating the trial court judgment (the Federal Circuit, as evidenced here, and the Second Circuit). (*See* Joint Brief of Respondents in Opposition ("Opp.") at 9 n. 5.) As Respondents ultimately concede, "the courts of appeals clearly differ on whether the interests of the parties in vacating a judgment generally should prevail over the



public interest in preserving precedents ...." (Opp. at 9.) This admission confirms that there is a conflict among the circuits on the issue of vacatur in connection with settlement.

2. Respondents rely on various orders of this Court summarily vacating lower court judgments, including *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, 111 S. Ct. 1300 (1991), as supporting their opposition to review (Opp. at 5-6). These orders, however, do not contain any legal discussion of the issue of vacatur in connection with settlement and cannot be properly read as establishing any precedent on the issue. Moreover, there is considerable disagreement with the Federal Circuit's (A5) and Respondents' (Opp. at 6-7) position that this Court's decision in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), supports routinely granting vacatur in connection with settlement. See, e.g., *In re United States*, 927 F.2d 626, 628 (D.C. Cir. 1991) (*Munsingwear* was concerned with vacating a judgment where review is prevented by "happenstance," and choosing to settle rather than pursue an appeal is not "happenstance"); *Matter of Memorial Hospital*, 862 F.2d 1299, 1301 (7th Cir. 1988) (under *Munsingwear*, the judgment should be vacated only when parties are *unable* to obtain appellate review). See also *Karcher v. May*, 484 U.S. 72, 83 (1987). Accordingly, review of this issue and guidance by the Court is needed.

3. Contrary to Respondents' arguments (Opp. at 4-5), Petitioner Izumi has standing. Izumi timely sought to intervene in the Federal Circuit as soon as Windmere, Izumi's indemnitee, joined in the motion to vacate. Moreover, while Respondents concede that Izumi "could seek review ... by petitioning for certiorari on the standing issue" (Opp. at 4-5), they are wrong in saying that Izumi has not done that here. In its petition, Izumi stated that the Federal Circuit erred in refusing to allow it to intervene in the appeal to oppose vacatur and, thus, that "Izumi is entitled under 28 U.S.C. § 1254(1) to seek review of the

Federal Circuit's holding that Izumi lacked standing to challenge the motion to vacate." (Petition at 15.)

4. Izumi can hardly be characterized as having only an "attenuated connection to the judgments at issue" (Opp. at 2) or as being a "stranger" to the litigation (Opp. at 3). Izumi funded Windmere's defense of Philips' unfair competition claim and would have had to pay any damages awarded to Philips (A14), and the district court judgment, until vacated, prevented Philips from again raising that claim, whether against Izumi or against another Izumi customer. Accordingly, the decision denying Izumi leave to intervene and granting vacatur directly affected Izumi.

For these reasons, the Court should grant the petition for writ of certiorari.

Respectfully Submitted,

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IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

JOINT APPENDIX

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April 22, 1993

177 pp

## TABLE OF CONTENTS

	<u>Page</u>
APPENDIX A – Chronological List of Relevant Docket Entries:	
– United States District Court for the Southern District of Florida, Case No. 84-2508-Civ-Marcus . . . . .	1a
– United States Court of Appeals for the Federal Circuit, Appeal No. 92-1020. . . . .	8a
APPENDIX B – Amended Complaint for Patent Infringement and Unfair Competition, filed in the Southern District of Florida, dated November 21, 1984. . . . .	12a
APPENDIX C – Final Judgment in the Southern District of Florida, entered April 30, 1986 . . . . .	21a
APPENDIX D – Order of Permanent Injunction of the Southern District of Florida, entered May 20, 1986. . . . .	23a
APPENDIX E – Order of the Southern District of Florida Granting a New Trial, entered May 20, 1988. . . . .	25a
APPENDIX F – Decision by the United States Court of Appeals for the Federal Circuit in <i>U.S. Philips Corp. v. Windmere Corp.</i> , 861 F.2d 695 (Fed. Cir. 1988) . . . . .	45a
APPENDIX G – Pretrial Stipulation Pursuant to Local Rule 14(D) filed in the Southern District of Florida, dated January 18, 1990 . . . . .	79a
APPENDIX H – Response of Izumi to N.A. Philips' Interrogatories, filed in the Southern District of Florida, dated February 12, 1990. . . . .	100a
APPENDIX I – Request for Judicial Notice in the Southern District of Florida, April 4, 1990. . . . .	111a
– w/attached exhibit: Supplemental Third Party Defendant Counterclaims, filed in the Northern District of Illinois, February 24, 1986. . . . .	115a
APPENDIX J – Special Interrogatories Unfair Competition, filed in the District Court for the Southern District of Florida, dated April 6, 1990 . . . . .	121a



(ii)

	<u>Page</u>
APPENDIX K – Special Interrogatories Antitrust, filed in the District Court for the Southern District of Florida, dated April 6, 1990 . . . . .	122a
APPENDIX L – Order of the District Court for the Southern District of Florida, entered Septem- ber 3, 1991 . . . . .	126a
APPENDIX M – Certificate of Interest filed in the United States Court of Appeals for the Federal Circuit, dated February 17, 1992 . . . . .	156a
APPENDIX N – Settlement Agreement between North American Philips Corporation and Wind- mere, dated May 6, 1992 . . . . .	158a
APPENDIX O – Letter to F. Gindhart, Clerk of the United States Court of Appeals for the Federal Circuit, from W. Androlia, dated May 11, 1992. . . . .	162a
APPENDIX P – Order of the United States Court of Appeals for the Federal Circuit, entered May 18, 1992. . . . .	165a
APPENDIX Q – Supplemental Declaration of William L. Androlia (with two attachments) submitted with Izumi's Motion for Leave to Oppose Vacatur as an Appellee or Alternatively for Leave to Intervene and Oppose as an Intervenor, filed with the United States Court of Appeals for the Federal Circuit, May 28, 1992. . . . .	166a
APPENDIX R – Order of the District Court for the Southern District of Florida, entered December 31, 1992 . . . . .	171a
APPENDIX S – Plaintiff's Trial Exhibit 548 filed in the Southern District of Florida. . . . .	172a

(iii)

The following opinions, decisions, judgments, orders and other parts of the record have been omitted in printing this appendix because they appear on the following pages in the appendices to the printed Petition for Certiorari ("Pet.") and the Joint Brief of Respondents in Opposition ("Res."):

	<u>Page</u>
Indemnity Agreement Between Windmere and Izumi, dated February 20, 1984. . . . .	Pet. A11
Order of Judgment of the United States District Court for the Southern District of Florida, entered April 6, 1990 . . . . .	Pet. A7
Judgment Regarding Unfair Competition Claims of the United States District Court for the Southern District of Florida, entered May 4, 1990 . . . . .	Pet. A8
Memorandum Opinion of the United States District Court for the Northern District of Illinois, entered October 5, 1990 . . . . .	Pet. A22
Joint Motion to Grant Certiorari, Vacate Judg- ment of Court of Appeals and Remand with Directions to Vacate Judgment of District Court on Grounds of Mootness, <i>City Gas Co. of Fla. v. Consolidated Gas Co. of Fla.</i> , 111 S. Ct. 130 (1991) (No. 90-953), dated February 27, 1991. . . . .	Res. C1
Joint Motion to Dismiss the Appeal as Moot and Vacate the Judgments Below in the United States Court of Appeals for the Fed- eral Circuit, dated May 11, 1992 . . . . .	Pet. A31
Declaration of William L. Androlia in the United States Court of Appeals for the Federal Circuit, dated May 15, 1992. . . . .	Pet. A13
Order of the United States Court of Appeals for the Federal Circuit, entered July 31, 1992. . . . .	Pet. A1

(iv)

	<u>Page</u>
Motion to Grant, Vacate and Remand on Grounds of Mootness, <i>Continental Casualty Co. v. Fibreboard Corp.</i> , 113 S. Ct. 399 (1992) (No. 91-1993), filed September 30, 1992. . . . .	Res. B1
Order of the United States Court of Appeals for the Federal Circuit Denying Izumi's Peti- tion for Rehearing and Suggestion for Rehear- ing In Banc, October 2, 1992. . . . .	Pet. A9
Memorandum Opinion of the United States Dis- trict Court for the Northern District of Illinois, entered October 13, 1992. . . . .	Pet. A36
Petition for Permission to Appeal Pursuant to 28 U.S.C. § 1291(b) and (c) From Orders Certified by the United States District Court for the Northern District of Illinois, <i>U.S. Philips Corp. v. Sears</i> , dated November 16, 1992. . . . .	Res. A1

1a

## APPENDIX A – CHRONOLOGICAL LIST OF RELEVANT DOCKET ENTRIES

### The Florida District Court:

Date	NR	Proceedings
1984		
Oct. 23	1	COMPLAINT for patent infringement & unfair competition.
Nov. 21	5	AMENDED complt.
Dec. 4	9	ANSWER, counterclaims, third party complt, by Windmere Corp.
1985		
Jan. 28	21	REPLY to Windmere's Counterclaim, by U.S. Phillips
	31	27 AMENDED COMPL with Local Rule 14(a)(4), by Pltf.
Feb. 1	28	ANSWER & COUNTERCLAIM of Izumi Kaisha.
	14	33 REPLY to counterclaim of I. Kaisha, by Pltfs.
Mar. 27	64	ANSWER, by N.V. Philips to Third Party Complt. by Windmere.
Jun. 18	103	AMENDED ANSWER, counterclaims & 3rd pty complt. of deft. Windmere Corp. & demand for jury trial on all issues.
Sept. 27	162	REPLY of plts. to deft. Windmere's amended counterclaim.
	27	163 ANSWER of N.V. Philips' to amended third party compl. of Windmere Corp.

Date	NR	Proceedings
Dec. 30	272	AMENDED trial and scheduling ORDER (SM 12/26/85) Trial begin 3/31/86, ptys shall file their stip on 1/20/86. P/t conf is set for 3/5/86, Expert witness interrog's shall be due on 1/31/86. See original order for further information. (EOD 1/2/86-ccap).
1986		
Apr. 2	360	MINUTES of civil trial of 4/2/86, Trial cont unitl 4/3/86.
3	361	MINUTES of civil trial of 4/3/86, Trial cont to 4/4/86
4	362	MINUTES of civil trial of 4/1/86, Trial commended, Statement of case to jury, Jury impaneled & sworn, trial cont unitl 4/2/86.
4	365	MINUTES of civil trial of 4/4/86, trial cont to 4/7/86.
7	366	MINUTES of civil trial on 4/7/86, Trial cont to 4/8/86.
8	367	MINUTES of civil trial on 4/8/86, trial cont unitl 4/9/86.
10	373	MINUTES of civil trial on 4/9/86.
10	374	MINUTES of civil trial on 4/10/86.
16	393	MINUTES of civil trial of 4/14/86, trial cont'd to 4/16/86.
16	394	MINUTES of civil trial of 4/15/86, trial cont'd to 4/17/86.

Date	NR	Proceedings
16	395	MINUTES of civil trial of 4/16/86, trial cont'd to 4/17/86.
17	398	MINUTES of civil trial of 4/17/86, trial cont unitl 4/18/86.
18	399	MINUTES of civil trial of 4/18/86, trial cont unitl 4/21/86.
21	403	MINUTES of 4/21/86, trial cont'd unitl 4/22/86.
22	408	SPECIAL verdicts and interrog's.
23	409	MINUTES of civil trial of 4/22/86, jury returned in favor of (see verdict form)
30	415	FINAL (SM 4/30/86) pltfs' recovers for debts' the amount of \$6,500.00. All claims are dismissed w/prej. (EOD 5/2/86-M-ccap).
May 12	422	MOTION for judgment notwithstanding the verdict on the patent issues, by debts'.
12	425	MOTIONS for a new trial, by pltfs'.
12	427	MOTION for judgment notwithstanding the verdict, by North American Philips.
21	430	ORDER (SM 5/20/86) of permanent injunction. Debts are permanently enjoined under 35 U.S.C. Sec. 283 during the term of U.S. JPatent No. 4,277,301. (EOD 5/22/86-ccap).
June 26	460	ORDER (SM 6/27/86) DENYING Windmere's motion to modify order of permanent injunctive relief & motion to stay. (EOD 7/1/86-ccap).
Aug. 11	463	SUPP MOTION for a new trial or in alt for relief of judgment, by pltf N.A. Phillips.



Date	NR	Proceedings
<i>1987</i>		
June 5	516	ORDER (SM 6/4/87) DENYING mot for judgment notwithstanding verdict. (EOD 6/12/87 CCAP)
5	517	ORDER (SM 6/4/87) DENYING mots for new trial. (EOD 6/12/87 CCAP)
8	518	ORDER (SM 6/8/87) GRANTING USP, NAPC & NVP's mots for directed verdict. (EOD 6/12/87 CCAP)
8	519	ORDER (SM 6/8/87) DENYING mot to vacate exparte order & to strike improper filings. (EOD 6/12/87 CCAP)
8	522	ORDER (SM 6/8/87) DENYING NAPC's mot for judgment notwithstanding verdict. (EOD 6/12/87 CCAP)
30	527	NOTICE OF APPEAL from the order entered on 6/8/87 granting Rule 54(b) by def 1 (COPIES to Attys of Rcrd. Crt. Rep. Coord) FEE PAID # 50176 (EOD-7/6/87-CCAP)
<i>1988</i>		
May*20	530	ORDER (SM 5/20/88) Philips' motn for new trial GRANTED. Cause set for S/ Conf on 6/29/88. (EOD 5/23/88-CCAP)
<i>1989</i>		
Dec 20	582	ORDER (SM - 12/18/89) Setting trl for 1/22/90 ptys submit p/t stip by 1/5/90 (EOD-12/26/89-CCAP).

Date	NR	Proceedings
<i>1990</i>		
Jan. 18	592	PRETRIAL stip purs Local Rule 14(D), by pltf.
Feb. 6	603	ORDER (SM-2/5/90) Setting trl for 3/5/90 (EOD-2/8/90-CCAP).
Mar. 19	28	MOTION for directed verdict on unfair competition clm or alternatively for reinstatement of the 1st jury's verdict & memo in supp, by deft Windmere.
Apr. 4	653	REQUEST for judicial notice, by pltf NAPC.
6	656	MINUTES of Day #1 j/t, 3/12/90.
6	657	MINUTES of Day #2 j/t, 3/13/90.
6	658	MINUTES of Day #3, 3/14/90.
6	659	MINUTES of Day #4, 3/15/90.
6	660	MINUTES of Day #5, 3/16/90.
6	661	MINUTES of Day #6, 3/19/90.
6	662	MINUTES of Day #7, 3/20/90.
6	663	MINUTES of Day #8, 3/21/90.
6	664	MINUTES of Day #9, 3/23/90.
6	665	MINUTES of Day #10, 3/24/90.
6	666	MINUTES of Day #11, 3/25/90.
6	667	MINUTES of Day #12, 3/26/90.
6	668	MINUTES of Day #13, 3/27/90.
6	669	MINUTES of Day #14, 3/28/90.
6	670	MINUTES of Day #15, 3/29/90.
6	671	MINUTES of Day #16, 3/30/90.

Date	NR	Proceedings
6	672	MINUTES of Day #17, 4/2/90.
6	673	MINUTES of Day #18, 4/3/90.
6	674	MINUTES of Day #19, 4/4/90.
6	675	MINUTES of Day #20, 4/5/90
6	676	MINUTES of Day #21, 4/6/90
6	677	SPECIAL antitrust interros.
6	678	SPECIAL unfair competition interros.
6	679	ORDER (SM-4/6/90) Upon jury verdict, Judgment in favor of deft Windmere in amt \$89,644,257.00 (EOD-4/9/90-CCAP-M) JS-6 4/6/90
11	680	MOTION for judgment notwithstanding verdict & new trl & stay of exec, by pltfs.
16	684	MOTION for JNOV on unfair competi- tion clm, by pltf NAPC.
16	685	MOTION for new trl on unfair competi- tion clm, by pltf NAPC
May 4	712	JUDGMENT (SM-5/4/90) DISMISSING w/prej pltfs' clms against deft Windmere under Section 43(a) of the Lanham Act (EOD-5/7/90-CCAP).
July 30	751	ORDER (SM-7/26/90) GRANTING M/o/a, o/a on M/judgement NOV sched for 8/16/90 @ 4:00 (EOD-8/1/90- CCAP).

Date	NR	Proceedings
1991		
Sept. 3	773	ORDER (SM-9/3/91 DENYING motion of Cntrdeft for JNOV or a New trial on Windmere's Antitrust Cntrclm, DENY- ING NAPC's motion for JNOV on the unfair Competition Count and DENY- ING NAPC's motion for a New Trial on the Unfair Competition Count (EOD 9/6/91-CCAP)
30	781	JOINT NOTICE OF APPEAL by U.S. Philips Corporation, North American Philips Corporation & N.V. Philips Gloeilampenfabrieken from Order of Judgment upon jury verdict in favor of deft. Windmere in amount of \$89,644,- 257.00 entered 4/9/90; Judgment regarding Unfair Competition Claims dis- missing with prejudice the claims of U.S. Philips Corporation & N.A. Philips Cor- poration against Windmere under Sec- tion 43(a) of the Lanham Act entered 5/7/90; and Order denying motions by NAPC, N.V. Philips & U.S. Philips for Judgment notwithstanding verdict or a new trial on the Antitrust and Lanham Act claims entered 9/6/91. (Copies to USCA & Attys of Record) (FEE PAID).
1992		
Aug. 7	793	ORDER (FCCA 7/31/92) 1. DENIED Izumi's opposition to the parties' joint motion to dismiss & vacate. 2 VACAT- ING the judgment of 4/6/90 & 5/4/90.

3. REMANDING back to District court.  
(EOD 8/20/92-CCAP)

Dec. 31 794 ORDER (SM 12/31/92) DISMISSING  
w/ prej and without costs all those  
claims subject to the 1990 judgments,  
including all verdicts and orders regard-  
ing such claims (EOD 1/11/93 (CCAP)

The Federal Circuit:

Date	Proceedings and Orders
September 30, 1991	Notice of appeal filed by Plaintiffs in the district court. (jb)
October 11, 1991	Notice of Appeal and certified list, received. (jb)
Dec 20, 1991	BRIEF FOR THE APPELLANT, filed. (MS-12/17/91) (cr)
Feb 17, 1992	<i>CORRECTED</i> BRIEF FOR AP- PELLEE, filed. (MS-2/17/92) (cr)
Mar 5, 1992	JOINT APPENDIX Vols-I-II 12 each filed. (MS-3/5/92) (cr)
Mar 23, 1992	<i>REVISED</i> REPLY BRIEF FOR APPELLANT, filed. (MS-3/23/92) (cr)
May 1, 1992	12 JOINT MOTION TO DISMISS THE APPEAL AS MOOT AND VACATE THE JUDGMENTS BELOW (MS-05/11/92) FILED: 05/11/92. ON CONSENT. REPLY 1(14) FILED: 05/15/92. ACT- ION ON MOTION (21): GRANT-

Date

Proceedings and Orders

ED. BY MERITS PANEL. FILED:  
07/31/92. (EOD 07/31/92 BY JB)  
92-1020.

- 13 LETTER FROM COUNSEL FOR  
DEFENDANT-APPELLEE (IZUMI  
SEIMITSU KOGYO KABUSHIKI  
KAISHA) INFORMING COURT  
OF ITS INTENT TO FILE AN  
OPPOSITION TO JOINT MO-  
TION TO DISMISS APPEAL,  
ETC. (MS-05/11/92) RECEIVED:  
05/11/92 (EOD 05/12/92) (PJT)  
92-1020
- 15 APPELLANT'S LTR TO COURT  
REGARDING (IZUMI ETC) RES-  
PONSE TO THEIR MOTION.  
(FS-05/13/92) FILED: 05/14/92  
(EOD 05/18/92) (LP) 92-1020
- 16 ORDER: (1) IZUMI SHALL FILE  
APPROPRIATE MOTION WITH-  
IN 10 DAYS, ETC. (2) PARTIES  
TO JOINT MOTION SHALL  
FILE ANY RESPONSE WITHIN  
10 DAYS THEREAFTER (3)  
ARGUMENT OF APPEAL  
SCHEDULED FOR JUNE 3 IS  
REMOVED FROM CALENDAR.  
FILED: 05/18/92 (EOD 05/18/  
92) (DF) 92-1020
- 17 JOINT REPLY OF PHILIPS AND  
WINDMERE PURSUANT TO  
COURT ORDER DATED MAY



## Date

## Proceedings and Orders

- 18, 1992. (SENT TO PANEL)  
(MS-05/26/92) FILED: 05/26/92  
(EOD 06/17/92) (PJT) 92-1020
- 18 IZUMI'S - MOTION FOR LEAVE  
TO OPPOSE VACATUR AS AN  
APPELLEE OR ALTERNATIVE-  
LY FOR LEAVE TO INTER-  
VENE AND OPPOSE AS AN  
INTERVENOR. (MS-05/27/92)  
FILED: 05/28/92. ACTION ON  
MOTION (21): MOTION DEN-  
IED. BY MERITS PANEL.  
FILED: 07/31/92. (EOD 07/31/  
92 BY JB) 92-1020
- 20 APPELLANT'S ANSWER TO AP-  
PELLEE'S MOTION REGARD-  
ING THE JOINT MOTION TO  
DISMISS AND VACATE THE  
JUDGMENTS. (SENT TO PANEL)  
(MS-06/04/92) RECEIVED: 06/  
04/92 (EOD 06/17/92) (PJT)  
92-1020
- July 31, 1992 21 ORDER: ACCORDINGLY, IT IS  
ORDERED THAT: (1) Izumi's  
opposition to the parties' joint  
motion to dismiss and vacate is  
DENIED. (2) The parties' joint  
motion is GRANTED. The judg-  
ments of April 6, 1990 and May  
4, 1990 are VACATED. We re-  
mand with instructions that the  
case be DISMISSED WITH PRE-  
JUDICE. (3) Thereupon, Appeal

## Date

## Proceedings and Orders

- No. 92-1020 is DISMISSED. (jb)  
971 F.2d 728 (as)
- APPELLEE - COMBINED PETI-  
TION FOR REHEARING AND  
SUGGESTION FOR REHEAR-  
ING IN BANC (MS-08/14/92)  
FILED: 08/14/92 PETITION CIR-  
CULATED: 08/20/92 PETITION  
DISPOSITION: DENIED. SUG-  
GESTION CIRCULATED: 09/15/  
92 SUGGESTION DISPOSITION:  
DECLINED ON 09/30/92. (EOD  
09/30/92 BY CS) 92-1020
- October 7, 1992 *MANDATE ISSUED TO THE  
DCT/FL.*
- 25 PETITION FOR WRIT OF CER-  
TIORARI FILED 12/30/92, SUP-  
REME COURT #: 92-1123. U.S.-  
L.W.: 61-3500 (EOD 01/27/93  
BY JA) 92-1020
- 26 PETITION FOR WRIT OF CER-  
TIORARI FILED 12/30/92, SUP-  
REME COURT #: 92-1123.  
CERT. GRANTED ON 02/22/93.  
U.S.L.W.: 61-3580 (EOD 03/02/93  
BY JA) 92-1020
-

**APPENDIX B – AMENDED COMPLAINT FOR  
PATENT INFRINGEMENT AND UNFAIR COMPETITION,  
FILED IN THE SOUTHERN DISTRICT OF  
FLORIDA, DATED NOVEMBER 21, 1984**

[Caption Omitted in Printing]

**AMENDED COMPLAINT FOR PATENT  
INFRINGEMENT AND UNFAIR COMPETITION**

**The Parties:**

1. Plaintiffs, U.S. Philips Corporation (“U.S. Philips”) and North American Philips Corporation (“NAPC”), are both corporations incorporated under the laws of the State of Delaware and both have places of business at 100 East 42nd Street, New York New York 10017.

2. Defendant, Windmere Corporation (“Windmere”), is a corporation incorporated under the laws of the State of Florida and has a regular and established place of business in this district at 4920 N.W. 165th Street, Hialeah, Florida 33014. Defendant, Izumi Seimitsu Kogyo Kabushiki Kaisha, a/k/a Izumi Seimitsu Kogyo Co., Ltd. (“Izumi”), is a corporation incorporated under the laws of Japan and has a place of business at 3-1 Motomachi 2-Chome, Matsumoto City, Nagano Prefecture 390, Japan.

**Jurisdiction and Venue:**

3. The Court has subject matter jurisdiction with respect to plaintiffs’ claims for patent infringement and unfair competition under 35 U.S.C. § 1 et. seq., 15 U.S.C. §§ 1121 and 1125, and 28 U.S.C. § 1338. Venue is proper under 28 U.S.C. §§ 1391 and 1400(b).

4. Izumi sells or consigns the electric shavers more particularly described herein through brokers, jobbers, wholesalers, or distributors (including but not limited to defend-

ant Windmere), within the State of Florida, for retail purchase by consumers in Florida and elsewhere. This conduct constitutes infringement, as will be shown.

5. By selling or consigning said products, Izumi has (a) committed a tort outside the State of Florida which causes injury to plaintiff in the State of Florida, and has likewise (b) committed a tort within the State of Florida, to the extent that the use and sale of said products causes injury to plaintiff by infringing upon plaintiff’s patent rights in and to its own product. The claim asserted herein arises from the aforesaid acts committed both within and without the State of Florida.

6. By its aforesaid acts, Izumi has injured plaintiff within the State in that its infringing products were and continue to be used, sold, and consumed within the State of Florida in the ordinary course of commerce, trade or use. The use, sale, and consumption of these products within the State of Florida infringes upon plaintiff’s rights and constitutes unfair competition, causing injury to plaintiff.

**Background:**

7. The claims herein arise as a result of Windmere’s recent introduction and sales of two models of men’s three-headed rotary electric shavers, models RR1 and RR2, which are manufactured in Japan by Izumi. These recent shavers employ a patented invention of U.S. Philips. The overall exterior appearance or visual design impression of these shavers is strikingly similar to the basic visual design impression embodied in the family of NAPC’s men’s three-headed electric shavers long sold by NAPC. This similarity of design impression enables Windmere to trade upon NAPC’s deserved reputation with the purchasing public for three-headed rotary shavers of high quality and performance. Windmere is

thereby able to misappropriate to its own benefit NAPC's good will and favorable public acceptance symbolized by the basic design impression embodied in NAPC's family of three-headed rotary shavers.

8. For more than thirty-five years last past, NAPC has sold high quality, high performance men's electric shavers under the NORELCO trademark to the retail trade in the United States. NAPC has extensively advertised and promoted its NORELCO shavers. Those shavers have long been the largest selling electric shavers in this highly competitive business.

9. NAPC commenced selling rotary shavers in the United States in 1948 when it introduced its first one-headed rotary shaver. Beginning in 1951, improved two headed rotary shavers were first sold by NAPC. In 1966, NAPC introduced improved three-headed rotary shavers in the United States market. Since then, NAPC has sold far more three-headed rotary shavers than one-headed and two-headed rotary shavers.

10. Regularly since 1966, NAPC has introduced improved models of its three-headed rotary shavers. Each has had a commercially attractive, overall design. The three-headed rotary shavers of the NAPC design family have shared the same distinctive overall visual impression. The designs embodied in the current NAPC three-headed rotary shaver models are exemplified by United States Design Patent No. D270,487.

11. Since the mid-1960's, Windmere has marketed hand held hair dryers, curling irons, and other personal hair care appliances to the retail trade in the United States under the WINDMERE name and mark. In early 1984, Windmere announced that it was entering the United States electric shaver market under the RONSON

mark, and has recently begun selling three-headed rotary shavers manufactured for it in Japan by Izumi. Windmere obtained rights to the RONSON mark from the company who had owned that mark but who had long since ceased to use it on electric shavers.

#### Patent Infringement Claim:

12. On October 14, 1980, United State Patent No. 4,277,301 was duly and legally issued to U.S. Philips as the assignee for an invention in a shaving apparatus. Since that date, U.S. Philips has been and still is the owner of Patent No. 4,227,301.

13. In recent years, NAPC's three-headed rotary shavers have employed the improved shaving apparatus described and claimed in United States Patent No. 4,277,301. This patented shaving apparatus represents an important advance in the electric shaver field. The quality of shavers afforded by the use of this patented apparatus has been and continues to be a significant contributing factor to the favorable public acceptance of NAPC rotary shavers.

14. Windmere is infringing Patent No. 4,277,301 by selling three-headed rotary shavers which include shaving apparatus embodying the patented invention. Izumi is actively inducing the infringement of Patent No. 4,277,301 by making the Windmere three-headed rotary shavers knowing that they will be sold in interstate commerce throughout the United States, and knowing that the sale and use of these shavers in the United States infringes Patent No. 4,277,301.

15. Windmere's infringement of Patent No. 4,227,301 is intentional, and is aggravated by the acts of unfair competition hereinafter pleaded, rendering this an exceptional case under 35 U.S.C. §285.



### First Claim for Unfair Competition:

16. NAPC realleges and incorporates herein by reference paragraph numbers 1-11 herein.

17. While the specific designs of NAPC's three-headed rotary shaver models have varied, one from another, in particular individual design details, most have shared a unique, basic visual design impression (the "NAPC Design Impression"). These are readily recognizable by the purchasing public as members of a single family of closely related shavers.

18. NAPC three-headed rotary shavers have long enjoyed a reputation for highest quality and performance with the purchasing public. This deserved reputation is an asset and property right of great value to NAPC. By reason, *inter alia*, of the national advertising and promotion of NAPC three-headed rotary shavers, and the great number of such shavers sold over the years, the purchasing public has come to associate this reputation for high quality and performance with the NAPC Design Impression long exclusively embodied in NAPC three-headed shavers.

19. The Windmere three-headed rotary shavers misappropriate the NAPC Design Impression, and consequently trade upon the public's association of the NAPC Design Impression with NAPC's reputation for quality and performance. Such misappropriation has improperly facilitated entry of the Windmere shavers into this highly competitive business. Windmere has intentionally emphasized the misappropriated NAPC Design Impression as a sales tool, and has thereby fostered a false impression of full equivalency between its three-headed rotary shavers and NAPC three-headed rotary shavers. For example, both are shown side by side in Windmere

national television commercials. Further, Windmere has adopted the same black and red color scheme for its shaver wallet packaging as NAPC has long used for its shaver wallet packaging of its three-headed rotary shavers.

20. NAPC has been and will be damaged by Windmere's copying of the NAPC Design Impression. NAPC's valuable reputation for high quality and performance is and will be wholly at risk in the hands of Windmere's quality control and product performance. Upon information and belief, the initial Windmere three-headed rotary shavers are inferior to NAPC's three-headed shavers in both quality and performance.

21. Unless promptly enjoined, NAPC's damages will be irreparable.

### Second Claim for Unfair Competition:

22. NAPC realleges and incorporates herein by reference paragraph numbers 1-11 and 17 herein.

23. By reason, *inter alia*, of the national advertising and promotion of NAPC three-headed rotary shavers, and the great number of such shavers sold over the years, the purchasing public has come to identify NAPC's three-headed rotary shavers by the NAPC Design Impression and to use the NAPC Design Impression to distinguish NAPC's three-headed rotary shavers from other three-headed rotary shavers. Consequently, the NAPC Design Impression, which is non-functional, has developed a trademark significance and is a valuable property right of NAPC.

24. Windmere's embodiment of the NAPC Design Impression in its three-headed rotary shavers unfairly

trades upon the good will and favorable public acceptance and recognition of the NAPC Design Impression. As a result of the advertising and sale of such Windmere rotary shavers, there is a likelihood that the purchasing public will be confused, deceived or will mistakenly believe that NAPC made the Windmere shavers for private label sales, that NAPC sponsors or approves of the Windmere shavers, and/or that NAPC is in some way associated with the making of the Windmere shavers. Windmere has promoted this likelihood of confusion by emphasizing the design impression similarity, and has fostered a supposed association between the shavers. For example, both are shown side by side in Windmere national television commercials. Further, Windmere has adopted the same red and black color scheme for its shaver wallet packaging as NAPC has long used for its shaver wallet packaging of its three-headed rotary shavers.

25. NAPC's rights in its NAPC Design Impression trademark have been and will continue to be damaged by sales of Windmere rotary shavers which, upon information and belief, are of quality inferior to that of NAPC three-headed rotary shavers and do not perform as well as NAPC three-headed rotary shavers.

26. Unless promptly enjoined., NAPC's damages will be irreparable.

WHEREFORE, plaintiffs request an Order of this Court:

A. Permanently enjoining Windmere, its officers, directors, employees, agents and all those under their direction and control, from selling and advertising to sell three-headed rotary shavers:

(1) having a shaving apparatus that is an infringement of Patent No. 4,277,301; and

(2) having a visual design impression, like those of Windmere's current RR1 and RR2 models, confusingly similar to the NAPC Design Impression embodied in NAPC's family of three-headed rotary shavers; and

(3) by displaying Windmere three-headed rotary shavers in wallet packaging having the red and black color scheme long used by NAPC for its shaver wallet packaging of its three-headed rotary shavers; and

B. Permanently enjoining Izumi, its officers, directors, employees, agents and all those under their direction and control, from selling three-headed rotary shavers, embodying the patented invention of Patent No. 4,277,301, to any person who is known to Izumi to plan to ship these shavers to the United States for resale in the United States and from any other act that induces others to infringe Patent No. 4,277,301; and

C. Awarding NAPC its damages including Windmere's profits resulting from the sale of Windmere three-headed rotary shavers, including the RR1 and RR 2 models, having a visual design impression confusingly similar to the NAPC Design Impression; and

D. Awarding U.S. Philips its damages arising from Windmere's and Izumi's infringement of Patent No. 4,277,301; and

E. Awarding U.S. Philips increased damages and its reasonable attorneys' fees and costs herein pursuant to 35 U.S.C. §§284 and 285; and

F. Awarding NAPC its reasonable attorneys' fees and costs herein pursuant to 15 U.S.C. §1117; and

G. Ordering the destruction of all Windmere three-headed rotary shavers, including the RR1 and RR2 models, having a visual design impression confusingly similar

lar to the NAPC Design Impression, and all packaging and advertising materials showing such rotary shavers; and

H. Such other and further relief as the Court may deem just and proper.

DATED this 21 day of November, 1984.

Respectfully submitted,

ALLEGRETI, NEWITT, WITCOFF &  
McANDREWS, LTD.

125 South Wacker Drive  
Chicago, Illinois 60606

and

FOWLER, WHITE, BURNETT, HURLEY,  
BANICK & STRICKROOT

501 City National Bank Building  
25 West Flagler Street  
Miami, Florida 33130  
Telephone: (305) 358-6550

By: /s/ John R. Kelso  
John R. Kelso

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**APPENDIX C – FINAL JUDGMENT IN THE  
SOUTHERN DISTRICT OF FLORIDA,  
ENTERED APRIL 30, 1986**

[Caption Omitted in Printing]

**FINAL JUDGMENT**

THIS ACTION came on for trial before the Court and a jury, Honorable Stanley Marcus, District Judge, presiding, and a jury verdict having been returned on plaintiffs' claims; the Court having directed a verdict dismissing with prejudice certain of defendants' counterclaims pursuant to Fed.R.Civ.P. 50; and dismissing with prejudice the remaining portions of defendants' counterclaims pursuant to Fed.R.Civ.P. 56,

IT IS ORDERED AND ADJUDGED on the verdict of the jury, that Patent No. 4,277,301 is not invalid, that defendants have infringed such patent, that such infringement has not been willful, and that damages are assessed against defendants in the amount of \$6,500 because of such infringement;

THAT on the verdict of the jury final judgment is entered against plaintiffs on the two unfair competition claims contained in the Amended Complaint, and therefore these claims are dismissed with prejudice.

THAT pursuant to Fed.R.Civ.P. 50 U.S. Philips, North American Philips and N.V. Philips Gloeilampenfabrieken ("N.V. Philips") Motion for a Directed Verdict is granted as to Count I, Count II, Count III and Count V of Windmere's Counterclaims, and, with respect to U.S. Philips Corporation and North American Philips Corporation, the Motion for a Directed Verdict is granted as to Count VII, and therefore these claims are dismissed with prejudice; and



THAT pursuant to Fed.R.Civ.P. 56 U.S. Philips Corporation, North American Philips Corporation and N.V. Philips' Motion for Summary Judgment is granted as to Count VI of Windmere's counterclaim and therefore these claims are dismissed with prejudice; and

THAT pursuant to Fed.R.Civ.P. 56 N.V. Philips' Motion for Summary Judgment on Count VII of Windmere's Counterclaim is granted and therefore this claim is dismissed with prejudice.

DONE AND ORDERED at Miami, Florida this 30th day of April, 1986.

/s/ Stanley Marcus  
STANLEY MARCUS  
UNITED STATES DISTRICT JUDGE  
SOUTHERN DISTRICT OF FLORIDA

cc: Counsel of record

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**APPENDIX D – ORDER OF PERMANENT  
INJUNCTION OF THE SOUTHERN DISTRICT  
OF FLORIDA, ENTERED MAY 20, 1986**

[Caption Omitted in Printing]

**ORDER OF PERMANENT INJUNCTION**

This action having been tried to the Court and jury, the jury having reached its verdict and findings by answering special interrogatories, concluding that defendants, Windmere Corporation ("Windmere") and Izumi Seimitsu Kogyo Kabushika Kaisha ("Izumi") had failed to prove that U.S. Patent No. 4,277,301 is invalid or unenforceable, and that plaintiff U.S. Philips Corporation had borne its burden of proving the infringement of U.S. Patent No. 4,277,301 by both Windmere and Izumi,

**IT IS HEREBY ORDERED AND DECREED:**

1. Windmere and Izumi, their respective officers, agents, servants, employees, and attorneys, and all those persons in active concert or participation with them who shall receive actual notice of this injunction by personal service or otherwise, are permanently enjoined under 35 U.S.C. Sec. 283 during the term of U.S. Patent No. 4,277,301, from:

a. manufacturing, using, selling, or offering for sale or use, or causing to be manufactured, used, sold, or offered for sale or use, any Ronson RR-1 or RR-2 rotary shavers that were shipped by Izumi on or before February 10, 1985, such being the date it was represented in the pre-trial stipulation of this cause that Izumi shipped the last shavers having uneven spacing between groups of cutter blades, and that infringe the aforementioned patent;

b. manufacturing, using, selling, or offering for sale or use, or causing to be manufactured, used, sold, or offered

for sale or use, any product that infringes of any claims 1 or 2 of U.S. Patent No. 4,277,301;

c. otherwise directly infringing or contributing to the infringement of or inducing infringement of any of claims 1 or 2 of U.S. Patent No. 4,277,301.

DONE AND ORDERED at Miami, Florida this 20th day of May, 1986.

/s/ Stanley Marcus  
STANLEY MARCUS  
UNITED STATES DISTRICT JUDGE  
SOUTHERN DISTRICT OF FLORIDA

cc: Counsel of record

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**APPENDIX E – ORDER OF THE SOUTHERN  
DISTRICT OF FLORIDA GRANTING A NEW TRIAL,  
ENTERED MAY 20, 1988**

[Caption Omitted in Printing]

**ORDER**

THIS CAUSE has come before the Court upon the motion of Plaintiffs U.S. Philips Corporation and North American Philips Corporation (collectively "Philips") for a new trial. As the basis for their motion for a new trial, Philips points to the Defendant Izumi Seimitsu Kogyo Kabushika Kaisha's ("Izumi") failure to fully respond to a document production request, in which Philips requested Izumi to

Produce all documents evidencing, relating to, referring to, or embodying any patent applications and/or patents directed to Izumi rotary shavers and/or component part(s) thereof or contained therein.

Plaintiffs' Set of Requests to Izumi for Production of Documents and Things at ¶ 65. Izumi responded that it would "produce those documents relating to any U.S. patent applications . . . directed to Izumi's rotary shavers and/or components thereof." Izumi's Response to Plaintiff' Set of Requests to Izumi for Production of Documents and Things at 13. Izumi failed to produce any documents relating to its June 14, 1984 patent application for the Izumi-produced Ronson RR1 and RR2 rotary electric razors, which were the subject of this case. We have reviewed the lengthy pleadings filed and taken oral argument as to the issue and for the reasons set forth at some length, we grant Philips' motion for a new trial.

### I. Background

Plaintiff Philips has been engaged in the manufacture and sale of rotary electric razors under the brand name "Norelco" since 1963. Defendant Windmere Corporation has sold various goods throughout the United States, including "Ronson" electric rotary razors since 1984. Izumi is the Japanese corporation that manufactures and distributes the Ronson razors.

Philips commenced this action in October 1984, alleging that Windmere and Izumi had engaged in patent infringement and unfair competition by manufacturing and making certain Ronson rotary razors. According to the Complaint, the Defendants' Ronson rotary razors violated Philips' patents on Norelco rotary razors, and created confusion among consumers because the Ronson razors appear nearly identical to the Norelco razors.

Izumi filed a counterclaim against Philips, with respect to Philips' patent number 4,227,301, the patent at issue in the original complaint. In its counterclaim, Izumi averred that Philips violated section 2 of the Sherman Act, 15 U.S.C. §2, by attempting to monopolize and monopolizing the electric shaver and rotary shaver markets in the United States. The counterclaim also alleged that the Plaintiffs conspired to restrain trade in the relevant markets.

The parties engaged in extensive discovery prior to the trial of this case. In the course of discovery, on February 12, 1985, Philips submitted a set of requests for documents and things, which included as Document Request No. 65 the following request:

Produce all documents evidencing, relating to, referring to, or embodying any patent applications and/or patents directed to Izumi rotary shavers

and/or components part(s) thereof or contained therein.

Izumi responded in the following manner:

This request is objected to as being overly broad and as seeking documents that are neither relevant to the subject matter of the present litigation nor calculated to lead to the discovery of admissible evidence. Izumi, however, will produce those documents relating to any U.S. patent applications and/or U.S. patents directed to Izumi's rotary shavers and/or components thereof.

However, when Izumi produced documents relating to its applications for U.S. patents, it failed to produce its June 14, 1984 patent application, covering the Ronson RR1 and RR2 razors manufactured by Izumi which were the subject of the case.

The case was tried April 1-26, 1986 before a jury. At trial, among other things, Izumi maintained that any similarities between its razors and the Philips razors were a result of function, not design, and therefore there was no patent infringement. The jury found Philips' patent number 4,227,301 was valid and that Izumi had infringed on the patent, but also found that the infringement was not willful. Accordingly, the jury awarded Philips \$6,500.00 for patent infringement. Plaintiff Philips subsequently filed this motion for a new trial, after it discovered that Izumi had received a design patent for its Ronson razors. Izumi had applied for the design patent for the Ronson RR1 and RR2 on June 14, 1984 long before the close of discovery in this case. On September 20, 1985, the U.S. Patent and Trademark Office sent Izumi's patent attorney a notice of allowance of the patent. The patent was issued on June 10, 1986. Early in August 1986, counsel for N.A. Philips first learned of the issuance of



the design patent to Izumi for the "ornamental design" of the Ronson razors at issue in this lawsuit. In this motion, Philips claims that Izumi should have produced the documents in its possession relating to its application for a patent, and that because Izumi never produced those documents, a new trial must be granted.

## II. Motion for New Trial

There is a well-founded and general principal in favor of finality of judgments. "In the interest that each controversy eventually comes to an end and the courts and the parties be left to proceed to other matters, it is necessary that questions that have been fully considered and decided not be subject to open-ended reconsideration." 6A J. Moore, J. Lucas, & G. Grotheer, *Moore's Federal Practice* ¶60.02 (2d ed. 1987). Federal Rule of Civil Procedure 60(b) is an exception to the policy favoring finality of judgments, and was intended to permit courts to address instances of unjust judgments. *See generally* Note, *Federal Rule 60(b): Relief From Civil Judgments*, 61 Yale L.J. 76 (1952). In reviewing a motion for Rule 60(b) relief from judgment, a balance between "the desirability of finality and the prevention of injustice" must be achieved. *In re Casco Chemical Co. (Abramson v. Superintendence Co.)*, 335 F.2d 645, 651 (5th Cir. 1964).

Indisputably, the party seeking to set aside the judgment bears the burden of proving that setting aside the judgment and granting a new trial is merited. *See Cliett v. Hammonds*, 286 F.2d 471 (5th Cir.), *cert. denied*, 366 U.S. 960 (1961); *see also Booker v. Dugger*, 825 F.2d 281, 283-84 (11th Cir. 1987). Philips seeks relief under Rules 60(b)(2) and 60(b)(3). Rule 60(b)(3) provides:

On motion and upon such terms as are just, the court may relieve a party or a party's legal representative from a final judgment, order, or proceeding for . . . fraud (whether heretofore denominated intrinsic or extrinsic), misrepresentation, or other misconduct of an adverse party . . .

Fed.R.Civ.P. 60(b)(3). For the movant to prevail on a Rule 60(b)(3) motion, he must prove two elements: first, that the adverse party obtained the judgment through misconduct, and second, that the misconduct prevented the movant from "fully and fairly presenting his case." *Taylor v. Texgas Corp.*, 831 F.2d 255, 259 (11th Cir. 1987) (*quoting Harre v. A.H. Robins Co.*, 750 F.2d 1501, 1503 (11th Cir. 1985) (*quoting Stridiron v. Stridiron*, 698 F.2d 204, 207 (3d Cir. 1983))); *see also Square Construction Co. v. Washington Metropolitan Area Transit Authority*, 657 F.2d 68, 71 (4th Cir. 1981). For Rule 60(b)(3) purposes it is not necessary that the information withheld be of such nature as to alter the outcome of the case. *See Rozier v. Ford Motor Co.*, 573 F.2d 1332, 1339 (5th Cir. 1978); *Seaboldt v. Pennsylvania Railroad Co.*, 290 F.2d 296, 299-300 (3d Cir. 1961).

### A. Misconduct

Philips cites what it calls three instances of misconduct by Izumi. First, Philips maintains that Izumi failed to fully respond to the document request submitted during the discovery process. Second, it is averred that the president of Izumi and Izumi's attorneys should have produced the patent application in accordance with Federal Rule of Civil Procedure 26(e)(2). Third, Philips contends that Izumi did not comply with this Court's November 12, 1985 discovery order.<sup>1</sup>

The Request to Produce that Philips submitted to Izumi on February 12, 1985 asked Izumi to "produce all documents" relating to patent applications. Izumi had filed for a design patent for its rotary razors on June 14, 1984. However, Izumi did not produce any documents relating to, or even mention the existence of its June 14, 1984 application. The June 14, 1984 application was pending with the United States Patent and Trademark Office throughout the pendency of this case, but not once did Izumi produce any document, make any mention, or in any way inform Philips or the Court that it had submitted an application for a design patent for the Ronson RR1 and RR2 rotary razors. At least in that respect, Izumi engaged in Rule 60(b)(3) misconduct. See *Stridiron v. Stridiron*, 698 F.2d 204, 207 (3d Cir. 1983).

Izumi claims that its President, Matsumoto Shunji Izumi, was not aware of the patent application until the start of the trial and that its attorneys were not made aware of the application until sometime during the middle of the trial. According to Izumi, because their knowledge of the patent application came over a year and a half after they received the original request for production, they had no duty to disclose the application. We are unpersuaded by this argument for a number of reasons.

First, when an applicant files for a design patent, he is subject to the same conditions as an applicant for an invention patent. 35 U.S.C. §171. Specifically, every patent applicant must attest to an oath that he is the original designer or inventor of the subject matter of the patent application. 35 U.S.C. §115. In addition, the oath must state that the applicant

[h]as reviewed and understands the contents of the specification, including the claims, as amended

by any amendment specifically referred to in the oath or declaration . . .

37 C.F.R. §1.63(h)(1) (1987).

On April 11, 1984, Shunji Izumi signed his June 14, 1984 design application, which provided:

I hereby state that I have reviewed and understand the contents of the above identified specification, including the claim, as amended by any amendment referred to above.

The specification that accompanied the patent application was also signed by Shunji Izumi. Moreover, on June 11, 1985, Shunji Izumi signed a "Verified Statement (Declaration) Claiming Small Entity Status" with respect to the June 14, 1984 application. The "Verified Statement" provided:

I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under section 1001 of Title 18 of the United States Code, and that such willful false statements may jeopardize the validity of the application, any patent issuing thereon, or any patent to which this verified statement is directed.

Thus, at least from April 11, 1984 through June 14, 1985 Shunji Izumi, President of Izumi, was aware of the patent application and was signing documents with respect to the application. It is clear that Shunji Izumi was or should have been aware of the patent application — he signed an oath so stating — and that Shunji Izumi as President of Izumi was an agent of Izumi. A patent owner or applicant is responsible for the acts of its patent agents



who act within the scope of their authority. *See Halliburton Co. v. The Dow Chemical Co.*, 514 F.2d 377, 381 (10th Cir. 1975). Thus, Izumi, as a business entity, had an obligation to produce those documents requested during discovery, but failed to do so.<sup>2</sup>

Even if we were convinced that Izumi and its attorneys were not made aware of the patent application until some time during trial, at that point in time they had a duty to reveal that information to Philips. Under Fed.R.Civ.P. 26(e), Izumi was under the "duty seasonably to amend" when it discovered that its prior response to the request for production was "incorrect when made." Such a duty does not depend upon the circumstances, but always will arise when the party obtains the information.

A party who acquires actual knowledge that his earlier response was incorrect when he made it must *always* amend his response.

8 C. Wright & A. Miller, *Federal Practice and Procedure* §2049 at 324 (1970) (emphasis added).

According to Izumi, Shunji Izumi did not learn of the patent application until sometime during the trial at the latest and Izumi's attorneys learned about the application during the middle of the trial. *See* Defendants' Opposition to Plaintiffs' Supplemental Motion for a New Trial or in the Alternative for Relief from Judgment at 3; Affidavit of Gary M. Hoffman at ¶5 (Aug. 22, 1986). Once Shunji Izumi and Izumi's attorneys learned of the application, they bore the responsibility under Rule 26(e)(2) to supplement their original responses to the request to production. *See Rozier v. Ford Motor Co.*, 573 F.2d 1332, 1342 n.10 (5th Cir. 1978).

Nor are we convinced by Izumi's counsel's argument that it simply forgot about the document request. *See*

Defendants' Opposition at 15 n.11. Not only did Izumi's attorneys contemplate introducing evidence of the application, but they at least were aware that such evidence could be important to a full and thorough trying of the patent infringement issue. After all, the patent application covered the Ronson RR1 and RR2 razors, which were at issue in Philips' patent claim. Even if Izumi's patent attorneys did not remember the specific document production request, it is inconceivable that they did not realize that such an important piece of evidence may have been subject to discovery. It is not easy to accept the assertion that counsel found irrelevant a patent application and patent for a product that was the subject of Philips' claims based upon the similarities between the products. In fact, Izumi's counsel admits that had it "learned before trial that the Izumi design patent had been allowed, it would have willingly and eagerly disclosed this information . . ." Defendants' Response to North American Philips' Extraordinary Motion for Discovery and Supplemental Response to North American Philips' Motion for New Trial at 4. Instead, Izumi's attorneys, knowing that the patent had been applied for and granted, intentionally withheld that information from Philips.<sup>3</sup> Because the information did not reach the counsel for Izumi until during the trial, counsel made the unilateral decision not to disclose any of the information about the patent application or its allowance. Rule 26(e) contains no such time limitation. The duty to disclose the new information arises whenever the information comes to light. Failure to disclose such information is an independent basis for granting a new trial. *See Newsum v. Pennsylvania Railroad Co.*, 97 F. Supp. 500 (S.D.N.Y. 1951); *see also Voegeli v. Lewis*, 568 F.2d 89, 96 (8th Cir. 1977).



As it is clear that Izumi engaged in misconduct by failing to fully comply with the document request and not supplementing its earlier answer in conformity with Rule 23(e), it is unnecessary to address the third act of misconduct argued by Philips — failure to comply with a discovery order.

*B. Prevented from Fully and Fairly Presenting Claim*

The second prong of Rule 60(b)(3) is that the failure to receive the evidence must have prevented the party from fully and fairly presenting its claim. In his June 14, 1984 design patent application, Shunji Izumi avowed that the patent was for a design made for ornamental reasons. However, at trial Izumi's position was that the configuration of its rotary shavers was dictated by functional considerations, not ornamental motivations of design.

The distinction between a design patent and an invention patent is both real and important. "A design patent is for appearance and not for a method of manufacture or assemblage, function or utility." 5 E. Lipscomb, *Lipscomb's Walker on Patents* §16:7 at 33 (3d ed. 1986). A design may be defined as

the visual characteristics or aspects displayed by the object. It is the appearance presented by the object which creates an impression, through the eye upon the mind of the observer.

As a design is manifested in appearance, the subject matter of a design application may relate to the configuration or shape of an object, to the surface ornamentation thereof, or both.

A design is separable from the object and cannot exist alone merely as a scheme of surface ornamentation. It must be a definite, preconceived thing,

capable of reproduction and not merely the chance result of a method.

*Manual of Patent Examining Procedure* §1502 (5th ed. 1983) (quoted in *Lipscomb* at 203). A design patent may be issued for an ornamental, aesthetic idea that does not serve a functional purpose. See generally *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1337-40 (C.C.P.A. 1982); cf. *In re Honeywell, Inc.*, 497 F.2d 1344, 1348 (C.C.P.A.), cert. denied sub nom., *Dann v. Honeywell, Inc.*, 419 U.S. 1080 (1974). Thus, a design patent will not be issued if the design is primarily or solely the result of functional considerations. See *Bergstrom v. Sears, Roebuck & Co.*, 496 F. Supp. 476, 489 (D. Minn. 1980). A design patent is appropriate for "any new, original and ornamental design. . ." *Kwik-Site Corp. v. Clear View Manufacturing Co.*, 758 F.2d 167, 171 (6th Cir. 1985) (quoting 35 U.S.C. §171).

Throughout this litigation, as well as at trial, Izumi maintained that the design of the Ronson RR1 and RR2 was dictated by functional considerations. See, e.g., *Memorandum in Support of Sears Shavers* at 2-6 (filed April 11, 1986). Izumi maintained throughout the case that the "Norelco look" was a result of function, not design, and that Philips could not have an exclusive proprietary right to that look. The claim that the Ronson RR1 and RR2 looked like Norelco razors because of functional considerations was a significant factor at the trial. Izumi took a strong position that its razors' design were dictated by functional necessity, not ornamental reasons.<sup>4</sup> However, in the application for a design patent, Mr. Izumi stated that the design was a factor of ornamentation, not function. Izumi's failure to produce an important document that related to so significant an issue

in the trial deprived Philips of a full and fair trial of the merits of the case.

There can be no doubt that the patent application would have been relevant evidence. Izumi admitted as much at the oral argument on Philips' motion for a new trial. *See* Transcript at 21, 24 (June 17, 1987). Contrary to Izumi's claim in its memoranda, the evidence would not have been merely cumulative. The former Fifth Circuit aptly put it in *Rozier*:

We cannot know what use, if any, plaintiff's counsel would have made of the [document] had it been produced by [the defendant] prior to trial. However, consideration of one likely use reveals the prejudice that [the plaintiff] may have suffered as a consequence of [the defendant's] misconduct.

....

It is apparent, then, that the [document], far from being a cumulative tidbit of evidence already subsumed in the case presented to the jury, might have been the catalyst for an entirely different approach to the case on a theory that the plaintiff, lacking the document, let die before it reached the jury. Under these circumstances, we hold that [the defendant's] wrongful withholding of information prevented [the plaintiff] from fully and fairly presenting her case.

573 F.2d at 1343, 1345.

We conclude that not having information about the design patent application altered Philips' theory or approach to the case. There are a number of things that Philips could have done differently, had the patent application been made known to it. For example, Philips could have focused its case more on whether the design used by Izumi was dictated by functional considerations

instead of aesthetic reasons. Alternatively, if Philips had knowledge of the patent application, Izumi may have defended differently against the claim, changing the way Philips responded to the defense. Another way the information could have changed the case is to have made a disposition more likely. If Izumi is correct that the allowance of the design patent application would have assisted Izumi more than Philips, *but cf. In re R.M. Smith, Inc.*, 734 F.2d 1483, 1485 (Fed. Cir. 1984) (Patent and Trademark Office determination may be *prima facie* evidence), it is possible that the parties would have been more likely to reach a settlement agreement. Lastly, we note that given the significance of the evidence and the importance of this issue at trial, practically any conceivable effect of the knowledge of the existence of the application would have been significant. Because of the requirement that the Patent and Trademark Office keep all applications in confidence until the patent is granted, Philips could not have discovered the existence of the pending patent application by another method. *See* 35 U.S.C. § 122.

The design/function distinction also was implicated by Jury Instructions. In Jury Instruction 45, the jury was told:

The likelihood of confusion, however, must be caused by the similarity between the primarily non-functional aspects of the designs. In other words, if you find that a likelihood of confusion arises solely from the functional aspects of the products, then you must return a verdict for Windmere.

Furthermore, in Jury Instruction 48, we informed the jury:

Let me now turn to the meaning of functionality. The first question to be determined is to what extent the features of the trade dress are primarily



functional or primarily non-functional. A feature of trade dress is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.

North American Philips contends that the trade dress is primarily non-functional. To make this determination you must find the overall design is primarily non-functional.

If, after reviewing all the evidence, you find that features of the trade dress are functional, then the public is free to copy those features with impunity, and no liability could be imposed on Windmere for copying what you find to be functional. If you find, on the other hand, that the trade dress is primarily non-functional, and you find that Windmere copied the trade dress, then Windmere would be liable for unfair competition.

The fact that rotary shavers can be produced in other forms and shapes may be evidence that the design is primarily non-functional; however, it does not necessarily mean that the design is non-functional. A design or feature may be considered primarily functional if it is the best or one of the few superior designs for the use of the product.

Given the importance of the design/function distinction, and Izumi's failure to produce what was surely relevant evidence, it is apparent that had the truth been revealed, the case may have proceeded differently and a different result may have been forthcoming. These are sufficient grounds to grant Rule 60(b)(3) relief. See *Bros Inc. v. W.E. Grace Manufacturing Co.*, 351 F.2d 208, 211 (5th Cir. 1965), cert. denied sub nom., *W.E. Grace Manufacturing Co. v. Bros, Inc.*, 383 U.S. 936 (1966).

Even if Philips would have used the patent application merely as evidence with which to impeach Mr. Izumi's

testimony that the design of the Ronson RR1 and RR2 was dictated by function, in this particular case that would be sufficient basis to grant a new trial. See *Harre v. A.H. Robins Co.*, 750 F.2d 1501 (11th Cir. 1985). In *Harre*, the defendant relied on a witness who testified as to the causation issue in a products liability case. The defendant's witness represented that he had directed studies on the product in question. The defendant had produced no discovery with respect to the claimed studies. At a later, related trial, the witness testified that he had neither conducted nor witnessed any study done on the product, but was familiar with a study conducted by another individual. The Eleventh Circuit in *Harre*, reversed the district court's denial of a new trial on Rule 60(b)(3) grounds. According to the *Harre* court, the failure of the defendant to produce discovery information about the studies effectively denied the plaintiff the opportunity to cross-examine the witness on important testimony. *Id.* at 1505. The case at bar is similar, in that Shunji Izumi testified that the design of the Ronson razors was necessitated by functional concerns, in contradiction of his oath in the patent application. While it is true that Izumi would not have been estopped from testifying about the functional reasons for the Ronson design, the patent application could have been strong evidence about the nature of the Ronson design and could have served as an important basis with which to cross examine Shunji Izumi. See *Campbell v. Skinner*, 236 F. 359, 360 (S.D. Fla. 1916). The Plaintiff in this case was surely entitled to vigorously cross-examine and confront witness Izumi. Defendants' unilateral decision to withhold what was indisputably relevant and material information impeded that basic right.



### III. Conclusion

The discovery process is a basic structural premise on which our system of civil litigation is built. "Mutual knowledge of all the relevant facts gathered by both parties is essential to proper litigation. To that end, either party may compel the other to disgorge whatever facts he has in his possession." *Hickman v. Taylor*, 329 U.S. 495, 507 (1947). It is assumed that the parties to a lawsuit will comply with discovery requests unless they have a valid basis to seek a protective order. To this end, the discovery process requires candor in responding to a discovery request. See *Dollar v. Long Manufacturing Co.*, 561 F.2d 613, 616 (5th Cir. 1977). When a party from whom discovery is sought fails to fully respond to a discovery request, the party seeking discovery may seek to compel discovery. However, when the party seeking discovery is not aware that the other party has not fully complied with the discovery request, the discoverer is in the dark. Instead of being able to compel further discovery to have his discovery request fully satisfied, the discoverer who obtains only partial discovery is left thinking he has obtained full discovery and will try or settle the case based upon what he may believe is full information. Not only is this unfair, it may lead to unjust results. See *Rozier v. Ford Motor Co.*, 573 F.2d 1332, 1345-46 (5th Cir. 1978). Willful acts in disregard of the rules governing discovery often require drastic measures by the court. See, e.g., *Telectron, Inc. v. Overhead Door Corp.*, 116 F.R.D. 107, 110 (S.D. Fla. 1987) (default judgment entered as sanction for destruction of documents). According, it is hereby

ORDERED AND ADJUDGED that Philips' motion for a new trial is GRANTED. It is further

ORDERED AND ADJUDGED that this cause is set for a status conference before the undersigned at the United States District Court, 300 Northeast First Avenue, Second Floor, East Courtroom, on June 29, 1988, at 5:00 p.m.

DONE AND ORDERED in Miami, Florida this 20th day of May, 1988.

/s/ Stanley Marcus  
STANLEY MARCUS  
UNITED STATES DISTRICT JUDGE  
SOUTHERN DISTRICT OF FLORIDA

cc: Counsel of record

### - FOOTNOTES -

<sup>1</sup> Izumi maintains that it had reached an agreement with Philips whereby there would be no discovery relating to Philips' unfair competition claim. For several reasons, we are not persuaded that such an agreement was fully contemplated by the parties. First, the only evidence of the agreement that Izumi can point to is a June 5, 1985 letter written by its attorney. While that letter may reflect the understanding of Izumi's counsel, there is no indication that Philips contemplated such an agreement. Furthermore, that letter post-dated the February 12, 1985 request for production by four months. Even if an agreement had been reached, Izumi was obligated to fulfill its discovery obligation before the agreement was reached. Second, Izumi engaged in discovery relating to Philips' unfair competition claim after June 5, 1985. In fact, this Court's Order of November 12, 1985 compelled discovery relating to the unfair competition claim. Even if the June 5, 1985 letter reflected some type of agreement relating to discovery, the agreement ceased to have effect by November 12, 1985. Finally, Izumi contends that the reason it did not produce documents relating to its patent applications was that it was unaware of the existence of such documents, not because of a discovery agreement.

<sup>2</sup> Izumi claims that Shunji Izumi did not understand the complexities of American patent law and thus did not grasp the importance of the June 14, 1984 design patent application. This

argument, of course, assumes Shunji Izumi was cognizant of the patent application. Shunji Izumi did not need to understand American patent law to realize that the patent application was subject to the discovery request. In fact, Izumi's response that it would produce documents relating to patent applications belies this professed ignorance.

<sup>3</sup> At the oral argument held before this Court on this motion for a new trial, Izumi's trial counsel conceded that he was made aware of the patent application and the granting of the patent during trial, but failed to produce those documents.

THE COURT: It was obvious, at least at that point, you had zeroed in specifically — this was in or about late March of '85 — on the issue, conceded that it was relevant by virtue of the response you gave. You didn't learn — did you not inquire back then as to whether or not there were any such documents relating to a U.S. patent?

MR. HOFFMAN: Yes, I did, Your Honor. I first inquired in November of 1984; subsequently required [sic], I believe it was May of 1985, was told that it wasn't.

Your honor, the first time I found out was during trial as indicated in my affidavits. The simple fact is I never recall, ever thought about, the issue never came up, the thought never came up, is this — was this ever requested by the other side —

THE COURT: You thought about it to the extent of trying to decide whether to put it in your case in chief, to help you on a point.

MR. HOFFMAN: And we simply decided —

THE COURT: So you zeroed in on the issue, but you never thought about the other side of the coin as to whether or not to help the other side?

MR. HOFFMAN: No, we did not, Your Honor. It just never happened, never came up. The only thought that I had — because it was a theory that I wanted to try, that I wanted to include, could we get it in — I immediately decided there was no way a document — we did not have an exhibit list — to try to get it into the evidence at this point in time.

THE COURT: It didn't occur to you that it might be relevant on the issue of secondary meaning or functionality, or it might bear directly and immediately on the examination of Mr. Izumi?

MR. HOFFMAN: No, it did not, nor do I think does it bear on that issue, Your Honor, as indicated —

THE COURT: You don't think it bears on the ability to cross examine Mr. Izumi?

MR. HOFFMAN: It bears on the —

THE COURT: The application at this point?

MR. HOFFMAN: It does bear on the issue of ability to try to impeach Mr. Izumi. I don't think its dispositive of any issue. I think it's only, at most, of tangential relevance.

At that point in time, during trial, when we became aware of it, none of those issues came up, none of those thoughts crossed my mind. The only thought was can I get it in to use it; decided there is no way, and dropped it.

THE COURT: Tell me, what was your thought process?

MR. HOFFMAN: My thought process?

THE COURT: Yes.

MR. HOFFMAN: Outrage. I had asked for this. Why wasn't I told?

Second thought, can I get it into evidence? It will make a great argument to show the differences, to show a lack of likelihood of confusion.

THE COURT: Why didn't you try and offer it, then?

MR. HOFFMAN: Your Honor, a document — I don't have an exhibit list — that even though Mr. Izumi didn't know about it until trial, the patent agent that dealt with him in Japan knew about it, never showed us — Your Honor, I just thought I would be crucified even trying — and justifiably — even trying to put it into evidence, and dropped the idea. I figured there was no way that I was entitled to get that into evidence, and why even to bring up the point —

THE COURT: It never had occurred to you that, at best, it was a two-edge sword?

MR. HOFFMAN: No.

THE COURT: All right.

MR. HOFFMAN: Unfortunately, if it would have occurred to me, I would have produced it immediately. Just to put it in for whatever its worth.

THE COURT: With whom did you discuss this tactical decision?

MR. HOFFMAN: Of not putting — not trying to offer it?

THE COURT: Uh-huh.

MR. HOFFMAN: Mr. Saber (phonetic), with several other people that were in the room, in which were working in an adjacent room, and I know I have gone back and tried to resurrect my recollection. In one of my affidavits I listed several people. I believe I discussed it with Cy Hornsby of

Hornsby & Wisner (phonetic). I possibly discussed it also — and my recollection gets a bit vague — but I believe either with Gary Jones or Jim Vogler, and the existence of it briefly, I believe I might have mentioned it to Ed Foote — Mr. Foote, the existence.

The basic decision, not to even try, was a decision by myself, taken with brief consultation of others, and the issue died at that point. It never went further —

Transcript, June 17, 1987, Hearing at 40-43.

<sup>4</sup>While Izumi maintained at trial that the design of the Ronson RR1 and RR2 was dictated by functional concerns, Izumi now argues that “functionality” was not really an issue at trial. See Defendants’ Opposition at 13 n.10.

**APPENDIX F — DECISION BY THE UNITED STATES  
COURT OF APPEALS FOR THE FEDERAL CIRCUIT  
IN *U.S. PHILIPS CORP. v. WINDMERE CORP.*,  
861 F.2d 695 (FED. CIR. 1988)**

[Caption Omitted in Printing]

November 14, 1988.

Razor manufacturer brought trademark infringement action against competitor. Competitor counterclaimed for violation of the Sherman Act. The United States District Court for the Southern District of Florida, 680 F. Supp. 361, Stanley Marcus, J., granted directed verdict for manufacturer, and competitor appealed. The Court of Appeals, Friedman, Circuit Judge, held that there was sufficient evidence to submit antitrust claims to jury.

Reversed and remanded.

Pauline Newman, Circuit Judge, filed dissenting opinion in which Markey, Chief Judge, joined.

Forrest Hainline, Swidler & Berlin, Chartered, Washington, D.C., argued for plaintiffs-appellees Philips and N.A.P. With him on the brief was Timothy A. Ngau.

William E. Willis, Sullivan & Cromwell, New York City, argued for plaintiffs-appellees N.V. Philips. With him on the brief were John L. Hardiman, Garrard R. Beeney and Veselin M. Scekcic.

Edward Foote, Winston & Strawn, Chicago, Ill., argued for defendant-appellant Windmere. With him on the brief was R. Mark McCareins. Also on the brief were Cyrus H. Hornsby and Gary R. Jones, Hornsby & Whisenand, Miami, Fla., of counsel.



Before MARKEY, Chief Judge, FRIEDMAN, SMITH, NEWMAN and MAYER, Circuit Judges.

FRIEDMAN, Circuit Judge.

This case involves electric shavers. Windmere Corporation (Windmere) appeals from a final order of the United States District Court for the Southern District of Florida directing a verdict in favor of U.S. Philips Corp. and North American Philips (collectively Philips) on Windmere's antitrust counterclaims, 680 F.Supp. 361. Because we hold that there was sufficient evidence to submit the antitrust claims to the jury, we reverse and remand for a new trial on those claims.

# I.

## A. The Proceedings in the District Court.

In October 1984, Philips filed suit in the district court against Windmere and Izumi Seimitsu Kogyo Kabushiki Kaisha (hereinafter Izumi) (a Japanese corporation) for infringement of Philips' electric shaver patent and against Windmere for unfair competition. Windmere filed a counterclaim alleging that Philips had monopolized and attempted to monopolize the electric rotary shaver market, in violation of Section 2 of the Sherman Act, 15 U.S.C. §2 (1982), and that Philips and Dutch Philips (N.V. Philips Gloeilampenfabrieken) had conspired to restrain trade in that market, in violation of Section 1 of that Act, 15 U.S.C. §1 (1982). Windmere apparently has abandoned its Section 1 claim.

Both the antitrust and the patent issues were tried to a jury. At the close of Windmere's antitrust case, the district court granted Philips' motion for a directed verdict on those issues. The court submitted the patent and unfair competition issues to the jury, which ruled

for Philips on the patent claim and for Windmere on the unfair competition claim. Pursuant to Rule 54(b) of the Federal Rules of Civil Procedure, the court certified its order directing a verdict on the antitrust counterclaim as final and therefore appealable.

## B. The Evidence Relating to the Antitrust Counter-Claim.

1. *The product involved.* Philips sells, among other things, electric shavers under the NORELCO and the SCHICK brand names. There are two styles of electric shavers: rotary and foil. Rotary shavers use high-speed rotating cutters under a circular comb. Foil shavers use vibrating blades under an etched metal foil. Rotary shavers are either cordless rechargeable models or less expensive corded models.

Philips introduced its Norelco rotary shaver in 1948. The first model contained a single head. This was followed by a double- and then a triple-headed shaver; Philips introduced the latter in 1966. The Norelco triple-headed rotary shaver accounts for at least 75 to 80 percent of Philips' total shaver sales. In 1981, Philips purchased the rights to the SCHICK trademark and used it to market its foil shaver.

## 2. The rotary shaver market.

a. *The relevant market.* Philips does not dispute that there was sufficient evidence upon which the jury could have concluded that for antitrust purposes electric rotary shavers constituted a separate market from electric foil shavers. There also was evidence that shavers priced above \$30 constituted a separate market from those priced below that amount. Philips has tended to concentrate on the higher priced models, which generally are

the cordless or rechargeable shavers. In 1983, the year before Windmere entered the electric shaver market with its Ronson shaver, Philips had 72.8 percent of the sales of above-\$30 shavers.

b. *The concentration of that market.* Prior to the entry of Windmere and Sears Roebuck into the rotary shaver market, Philips' Norelco shaver was the only product there. Mr. Gould, Windmere's economist expert, who had worked for the Census Bureau and the Department of Justice, estimated that "in 1985 the Norelco share of the rotary market was of [sic] the order of ninety percent." Gould, who had studied the concentration ratios of more than 400 industries, testified that Norelco's share of the rotary market was "the highest figure I have encountered in all of my studies . . . . Going back thirty years."

c. *Barriers to entry.* There was evidence that a recognized brand name was critical to successful entry into the electric shaver market. In 1977, Windmere first attempted to market a foil shaver and used the manufacturer's name (Payer). The name was not well-known, and the shaver line was discontinued. The president of Windmere testified that Windmere's customers advised them "that there was no way we could be in the electric shaver industry without a brand. Windmere doesn't qualify as a national brand that was known in the electric shaver business which is what they told us what [sic] we needed." Although this testimony was admitted with a limiting instruction that it was allowed to show only "state of mind" and not the "truth of the answer," the fact that Windmere believed that it needed a brand name to succeed in the market is evidence that such a name was necessary.

Philips became aware in February 1980 that Windmere had reached "an understanding" to acquire the SCHICK brand name. Philips subsequently predicted that if anyone brought the SCHICK name and used it to market Izumi rotary shavers, as Windmere was attempting to do, Philips would lose \$15 million in sales and \$2 million in profit during a three-year period, as well as five points in market share. Philips then bought the rights to the SCHICK brand name and used it to begin marketing a line of foil shavers. A Philips memorandum titled "FOIL SHAVER MARKETING OPPORTUNITY" noted that one "of the factors which have influenced our decision not to market this line [foil shavers] in the past" was because

we [Philips] have been unwilling to commit the tens of millions of dollars required to establish an entirely new shaver brand in the U.S. market.

Now, however, we are faced with a unique opportunity which may never come our way again. An established brand name is available for a relatively small investment. Virtually all roadblocks which have stood in the way of the foil line are eliminated by the availability of the brand name — SCHICK.

Philips' own economist expert testified that entry into Windmere's proposed markets was relatively easy. Philips also relied on the fact that following Windmere's entry into the rotary shaver market in 1984, Windmere obtained 3 to 5 percent of the total electric shaver market.

d. *Windmere's entry into the rotary shaver market and Philips' response.* As noted, in 1977 Windmere unsuccessfully had attempted to enter the foil shaver market. In the spring of 1984, Windmere again entered the electric shaver market with both foil and rotary shavers manufactured in Japan, which Windmere sold under the RONSON trademark.



Windmere introduced a cordless rotary (model RR-1) shaver for \$34.99 and a corded rotary (model RR-2) shaver for \$22. Windmere projected that, during its first six months in the shaver business, it would sell 125,000 razors for total dollar sales of more than \$3 million. In the last nine months of 1984, Windmere actually sold more than 300,000 units for approximately \$6 million. Windmere's 1984 annual report, prepared after it had filed its antitrust counterclaim, stated that "[d]espite a substantial loss of sales and revenues resulting from Philips, i.e., Norelco's business tactics, the Ronson electric shavers represent the most successful new product line introduction in the history of the Company."

Philips had described Windmere as "a financially extremely healthy enterprise which is capable of making life very difficult for us." A Philips "report of decision taken at a management policy meeting" on January 5, 1984, stated: "If Windmere launches rotary shavers on the U.S. market, Mr. Beasley [vice president of marketing for North American Philips Consumer Product Division] proposes to kill this stone dead by introducing old models at very low prices . . . ."

After Windmere introduced its Ronson shavers at a price lower than Philips' shavers, an April 20, 1984 Philips weekly report, for the week ending April 21, 1984, stated: "Ronson is getting a solid foothold and apparently is willing and able to pay a high price to get into our business. Let's pound them into the sand." The report suggested that Philips introduce the model "1320" cordless rotary shaver. The model 1320 was Philips' old model 1312, which had an expected retail price of \$44 during 1979 to 1980.

The model 1320, however, was introduced at a distributor price of \$27.08, which was approximately 31 percent less than the \$39 price at which the same razor had been sold as the model 1312 four years earlier, and approximately 23 percent less than the comparable Ronson model. The introduction of the model 1320 was not mentioned in Philips' 1984 business plan, dated December 1983. Until the 1320, Philips had never introduced a new product at a lower price point.

Philips discussed the 1320 shaver in a March 1984 memorandum:

Until later in the year, Norelco has decided on an absolute embargo on any form of publicity in connection with the introduction of the HP 1320 . . . . The negative effect of any premature release of information on the HP 1320 or 1337 is feared, just at the very time when the intention is to introduce the 1320 as a complete addition to the line and not for it to take sales away from any of the existing range of standard shavers . . . . The question was asked whether it was the intention to include the 1320 in the line for 1985. Beasley and Co. have taken no clear position on this subject. *Given the likely impossibility of driving Windmere off the U.S. market completely*, we foresee that a non-retracting rechargeable shaver sold at an aggressive price level will persist on the market for a rather longer time and thus cannot be viewed as an incidental phenomenon, so to speak (emphasis added).

Philips later described the 1320 model as a "200th anniversary special to be out for a limited period of time."

A May 24, 1984 Philips memorandum stated: "As discussed at the policy meeting, we should attempt to



formulate a short term strategy with regard to the competition represented by the Ronson trademark, which in the hands of Windmere Inc. of Florida has penetrated our market segment." The memorandum refers to a marketing strategy wherein

[a] direct frontal attack on Ronson in the marketplace is probably the crudest and probably also one of the most expensive means at our disposal. This would involve, for example, us locating competing dealers at every address where Ronson is sold and selling Norelco and/or Philips shavers at a lower price. Furthermore, every challenge issued by Ronson in the form of actual discounts would have to be countered by offering even lower discounts.

We can reward exclusivity by giving every dealer who does not sell Ronson shavers an extra discount of 5%.

....

Total attack strategy, that is to say that just as Norelco is now doing, we would launch a multiplicity of activities against Windmere and at a later stage against any other competitor who appears on the scene.

The memo concludes that "legal measures" "should make life difficult for Ronson on every front where it is at all possible, on the basis of our patents" and that as a "tactical measure" Philips should "[b]uy Izumi, and quickly."

Windmere presented testimony that, after Philips introduced its model 1320, substantial orders (\$2-2.5 million) were cancelled. No orders for Ronson products had been cancelled before the Philips 1320 was introduced.

The 1984 Philips marketing plan included a model 1615 corded rotary shaver. The 1615 was to have been

sold to distributors for \$27.99, who then would have sold the shavers at a retail price of \$29.99. The price of the 1615, however, was dropped approximately 35 percent to a distributor price of \$18.03, which was almost \$4 less than the distributor price for Ronson's comparable corded rotary shaver.

Philips' response to Windmere's entry affected other models in its line. In its "Model policy 1985," discussed in May 1984, a twin-head model "1722" apparently was scrapped:

Mainly on account of the action undertaken against Ronson as well as because of the very presence of Ronson on the market with its known price advantages, there is less room for this product on the American market than had been originally planned.

Another model, the "1622," was also affected:

Although . . . this should be an expensive model on account of the enhanced specification compared with the HP 1620, it appeared from the discussion of this point that the matter of price was more important than the question of the specification. Norelco maintained their view despite the poor way in which sales of the HP 1620 had held up, even in the USA as well. Later the product discussion turned to the question of a frontal attack on Ronson. In this context, Groningen [Dutch Philips] quite clearly declared it was ready to drop the price of this product even below that of the HP 1620 (\$8.15) provided that Norelco were ready to drop their gross margin by a considerable amount. Such a frontal attack on Ronson must certainly be accompanied by considerably more volume . . . .

In March 1985, one year after Windmere entered the electric shaver market, a Philips memo of a sales meeting

and visits to buyers noted the damaging effect the 1615 and 1320 had on sales of other Philips models:

The HP 1615 and the HP 1320 clearly eat in on the HP 1337, HP 1327D and the HP 1604/05/06. This is a dramatic development since it appears that the HP 1615, at a price point of \$19.95 will be a disturbing development. It is clear that this is a planned development and that we cannot occupy ourselves "crying over spilled milk," but the fact remains nonetheless.

*e. Philips' alleged predatory pricing.* Windmere contended that Philips sold its 1320 and 1615 models below its average variable costs and sacrificed its short-term profits on those models in order to drive Windmere out of the rotary shaver market. Windmere and Philips introduced into evidence various calculations directed to the question whether Philips sold below cost. As the parties framed the issue, the answer depended upon which of Philips' costs properly were allocable to those two models.

The parties vigorously disputed whether Philips' advertising expenses were a variable cost of those models and, if they were, the basis upon which advertising expenses should be allocated. Philips contended that there should be subtracted from the \$17.5 million it spent for advertising in 1985 the approximately \$6.6 million it received for advertising in that year from its Dutch parent, N.V. Philips. If that subtraction were made, there was evidence that Philips made a profit on the sales of the shavers. Philips also argued that advertising expenses should have been allocated as a percentage of expenses based upon revenues — an allocation under which Philips would have made a profit. Windmere disputed these assumptions

and calculations based on them. Each side presented evidence justifying and supporting its position.

The parties also disputed the allocation of costs other than advertising. For example, Windmere relied upon its projections of Philips' 1985 costs of batteries, freight and handling. Philips contended that based on its actual, as distinguished from projected, costs for those items, it realized a profit on its sales. Windmere responded that because Philips' actual costs were not available to it, its calculations based upon projected costs were a reasonable basis for determining whether Philips' sales were at a profit.

*f. Windmere's withdrawal from the rotary shaver market.* In December 1985, less than two years after it introduced its Ronson rotary shaver, Windmere announced its withdrawal from the rotary shaver market. (It remained in the foil market.) Shortly thereafter, Philips discontinued the sale of its 1320 and 1615 rotary shavers. At a 1986 housewares show, Philips stated that "[t]hey were closing [the model 1320] out and coming out with a new model at a higher price."

#### C. The Decision of the District Court Directing a Verdict on the Antitrust Counterclaim.

In an opinion explaining "in detail" its "reasons for granting" Philips' motion for a directed verdict, the district court stated that "reluctantly" it had found that "Windmere had failed to present substantial evidence sufficient to create a jury question on at least one element of its antitrust claims — the willful acquisition or maintenance of monopoly power via predatory pricing. . . ." (footnote omitted).



The court ruled that "Windmere presented a substantial amount of evidence to support its definition of the relevant market and to show that [Philips] had market power in this market." The court stated that "[t]he specific conduct which Windmere alleged was anticompetitive and showed Philips' intent to monopolize, was Philips['] alleged predatory pricing scheme with regard to the sale of its model 1320 and 1615 rotary electric razors." The court held that under *International Air Industries, Inc. v. American Excelsior Co.*, 517 F.2d 714 (5th Cir. 1975), *cert. denied*, 424 U.S. 943, 96 S.Ct. 1411, 47 L.Ed.2d 349 (1976), Windmere was required to show that Philips was " 'charging a price below [its] average variable cost in the competitive market,' " (quoting 517 F.2d at 724) and that "Windmere's evidence of below-cost pricing does not meet the substantial evidence standard necessary to withstand a directed verdict."

The court stated:

The disputes regarding the evidence Windmere introduced to prove predatory pricing involve two primary issues: (1) the proper allocation of Philips['] advertising expenditures, and (2) the proper method of proving costs — i.e., by using actual costs or projections.

The court further stated that it was "undisputed that if all of Philips['] advertising expenditures are classified as fixed costs, that Philips['] prices for the model 1320 and 1615 razors exceeded their average variable cost." The court noted the testimony of Mr. Kamerschen, Philips' expert, that "based on his review of Norelco's business and media plans, which he stated contained the type of information an economist would generally rely upon in order to make a judgment of this kind, that Norelco's

advertising was a fixed cost," and stated that "Windmere failed to bring forth any information to the contrary on the cross-examination of this witness" (record reference omitted). The court ruled that the evidence upon which Windmere relied to show that advertising was a variable expense — Norelco's "1984 income statements . . . which listed advertising in a category entitled variable expenses" — was insufficient because "such an accounting record cannot alone support the classification of advertising as a variable expense for economic purposes" (record reference omitted).

The court further held that "[e]ven assuming, however, that advertising expenses here are properly characterized as variable costs, there is a question whether cooperative advertising support given to Norelco by NVP should be deducted before determining whether Norelco priced the 1615 and 1320 below its average variable cost." It rejected, as "wholly unsupported" by the evidence, Windmere's "contention" that the approximately \$6.6 million Philips received "in advertising support from NVP in 1985" either was not actually paid or was in addition to and not a part of the \$17.5 million Norelco spent for advertising in 1985. The court also held that Windmere had not introduced sufficient evidence to justify submitting to the jury Windmere's contention that the advertising expenses should be allocated to the 1615 and 1320 models "on a per unit basis" (footnote omitted). Finally, the court rejected Windmere's evidence of the cost of batteries, freight and handling because that evidence was based on "projections of the 1985 year" (emphasis in original).



## II

A. This court has exclusive jurisdiction over an appeal from a final judgment where the jurisdiction of the district court was based in whole or in part on 28 U.S.C. §1338(a) (1982). 28 U.S.C. §1295(a)(1) (1982). In filing its complaint against Windmere and Izumi for patent infringement, Philips invoked the jurisdiction of the district court under section 1338(a). Although Windmere's antitrust counterclaim, which is the subject of this appeal, did not invoke the district court's jurisdiction under that section, our appellate jurisdiction depends upon the nature of the case in the district court and not upon the issues presented to us for review. See *In re Innotron Diagnostics*, 800 F.2d 1077, 1080, 231 USPQ 178, 180-81 (Fed. Cir. 1986) ("the mere presence in a case of 'issues' other than those within a substantive field within this court's exclusive appellate jurisdiction [does not] oust this court of the jurisdiction it must and would otherwise exercise in carrying out its mission."); see also *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1431, 223 USPQ 1074, 1080 (Fed. Cir. 1984) (en banc).

In the present case, the jurisdiction of the district court over this case was based in part on section 1338(a). That fact gives us jurisdiction over this appeal, even though the appeal presents no questions under the patent laws. See, e.g., *In re Innotron Diagnostics*, 800 F.2d at 1080, 231 USPQ at 180 (where patent complaint was consolidated with antitrust complaint, the Federal Circuit had exclusive jurisdiction over appeal from final judgment); *Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1029, 226 USPQ 881, 890 (Fed. Cir. 1985) (where district court exercised jurisdiction over patent count under §1338(a), the Federal Circuit has jurisdiction, under §1295(a), to review the appeal of the non-patent counts).

B. In determining whether the district court correctly directed a verdict on Windmere's antitrust counterclaim, we apply the law of the regional circuit in which the district court sits to determine both the appropriateness of a directed verdict and the antitrust law questions. *Power Controls Corp. v. Hybrinetics, Inc.*, 806 F.2d 234, 237, 231 USPQ 774, 776 (Fed. Cir. 1986); *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 875, 228 USPQ 90, 99 (Fed. Cir. 1985) ("We must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review."); *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d 1564, 1574-75, 223 USPQ 465, 471 (Fed. Cir. 1984).

We thus "apply [Eleventh] Circuit law primarily and look to guidance (albeit nonbinding) from other circuits, especially in uncharted areas." 781 F.2d at 875, 228 USPQ at 99-100. Since the Eleventh Circuit treats as binding decisions of the Fifth Circuit rendered before October 1, 1981, when the Eleventh Circuit came into being, *Bonner v. City of Prichard, Ala.*, 661 F.2d 1206, 1207 (11th Cir. 1981) (en banc), we also apply those earlier Fifth Circuit decisions.

In the Eleventh Circuit, "[t]o avoid a directed verdict, [Windmere] must have presented sufficient evidence to create a jury question with respect to each element of [its] case." *Malcolm v. Marathon Oil Co.*, 642 F.2d 845, 848 (5th Cir. Unit B April), cert. denied, 454 U.S. 1125, 102 S.Ct. 975, 71 L.Ed.2d 113 (1981).

In determining whether there is sufficient evidence to submit a case to the jury following a motion for directed verdict, the district court should consider all evidence and not just evidence supporting the non-mover's case. The evidence must be considered in the light and with all reasonable

inferences most favorable to the party opposed to the motion. If the facts and inferences point so strongly and overwhelmingly in favor of one party that reasonable persons could not reach a different conclusion, the Court should direct a verdict.

*Gregory v. Massachusetts Mut. Life Ins. Co.*, 764 F.2d 1437, 1440 (11th Cir. 1985). See also *Boeing Co. v. Shipman*, 411 F.2d 365, 374 (5th Cir. 1969) (en banc) (for evidence to be sufficient to create a jury question it must be of a quality and weight that reasonable, impartial, and fair-minded jurors might reach different conclusions).

In *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986), the Supreme Court held that the standard for granting summary judgment under Rule 56(c) of the Federal Rules of Civil Procedure "mirrors the standard for a directed verdict under Federal Rule of Civil Procedure 50(a), which is that the trial judge must direct a verdict if, under the governing law, there can be but one reasonable conclusion as to the verdict. If reasonable minds could differ as to the import of the evidence, however, a verdict should not be directed." *Id.* at 250-51, 106 S.Ct. at 2511 (citation omitted). The Court pointed out that "[c]redibility determinations, the weighing of the evidence, and the drawing of legitimate inferences from the facts are jury functions, not those of a judge, whether he is ruling on a motion for summary judgment or for a directed verdict. The evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor." *Id.* at 255, 106 S.Ct. at 2513.

### III

"The offense of monopoly under §2 of the Sherman Act has two elements: (1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71, 86 S.Ct. 1698, 1703-04, 16 L.Ed.2d 778 (1966). The district court recognized, and Philips does not dispute, that "Windmere presented a substantial amount of evidence to support its definition of the relevant market [rotary electric shavers] and to show that [Philips] had market power in this market." The question before us, therefore, is whether Windmere presented sufficient evidence to entitle it to go to the jury on the second element of monopolization: whether Philips willfully had maintained its monopoly power in the rotary shaver market.

The district court viewed the essence of Windmere's case on the second element as "the willful acquisition of maintenance of monopoly power via predatory pricing," and used, as the standard for determining "predatory pricing," pricing "below average variable cost." The court concluded that Windmere had failed to present substantial evidence that Philips had priced its 1615 and 1320 rotary shavers below Philips' average variable costs.

We conclude, however, that the district court took too narrow a view of the kind of evidence that will support the second element of monopolization and of the bases of Windmere's claims. Moreover, even under the district court's narrow view of Windmere's theory, Windmere presented sufficient evidence of predatory pricing to preclude a directed verdict on that issue.



A. There was evidence from which the jury could have concluded:

1. That entry barriers to the rotary electric shaver market are substantial, if not high — the need to have a well-known brand with wide consumer acceptance, the limited number of brands that satisfy this requirement, and the substantial advertising expenditures required to attain a foothold in the market.

2. That Philips introduced its lower-priced older models only in response to Windmere's entry into the market with its cheaper Ronson rotary electric shaver.

3. That Philips cut the price of its shavers in an endeavor to eliminate Windmere from the market. Mr. Beasley proposed that if Windmere started selling rotary shavers in the United States market, Philips should "kill this stone dead by introducing old models at very low prices . . . ." A Philips weekly report, made after Philips had introduced its rotary shaver, suggested: "Let's pound them into the sand." A Philips memorandum referred to "the likely impossibility of driving Windmere off the U.S. market completely . . . ." Although Philips attempts to discredit this evidence as mere sales talk, it was for the jury to determine what weight and significance this evidence had.

That this purpose of Philips was further shown by the evidence that, when Windmere withdrew from the rotary shaver market, Philips promptly discontinued the sale of its lower-priced old model.

4. That Philips' willful maintenance of its monopoly position was further shown by Philips' prior acquisition of the SCHICK brand name after it had learned about an understanding between Windmere and Schick for Windmere to acquire that name.

To be sure, Philips introduced evidence designed to show that its actions were legitimate competitive responses prompted by the entry of Windmere into the market. The evaluation of all the evidence bearing on the nature of Philips' actions and the inferences to be drawn from the evidence, was for the jury to determine. If the jury had credited Windmere's evidence and rejected Philips', it could have returned a verdict for Windmere. Evidence that a firm holding 90 percent of a market that has substantial entry barriers drastically slashes its prices in response to the competition of a new entrant, for the purpose and with the effect of eliminating that entrant, is sufficient to show monopolization, in violation of section 2 of the Sherman Act. *Cf. Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 610-11, 105 S.Ct. 2847, 2861-62, 86 L.Ed.2d 467 (1985); *American Tobacco Co. v. United States*, 328 U.S. 781, 66 S.Ct. 1125, 90 L.Ed. 1575 (1946).

B. Even under the district court's view that Windmere's case rested on its claim that Philips had sold below average variable cost, the evidence was sufficiently in conflict to require submission of the issue to the jury and precluded a directed verdict. As the district court noted, the determination whether Philips sold below average variable cost required resolution of two issues: (1) whether Philips' advertising expenses were variable or fixed costs and, if variable, whether the advertising allowance Philips received in 1985 from its Dutch parent should be deducted from Philips' own advertising expenditures; and (2) whether Windmere's projections for certain items of Philips' cost — batteries, freight and handling — were sufficient to establish those costs. The district court held that on both of these elements of its case, Windmere failed to present sufficient evidence to create disputed factual issues for the jury. We disagree.



1. In ruling that Windmere had not presented substantial evidence that Philips' advertising expenses were variable rather than fixed costs to create a jury question on that issue, the district court relied on the testimony of Philips' economist expert, Mr. Kamerschen, that the Norelco advertising was a fixed cost, and stated that "Windmere failed to bring forth any information to the contrary on the cross-examination of this witness." It was for the jury, however, and not for the court, to determine the credibility of this witness and the weight to be given his testimony. The jury was not required to accept his expert testimony, even if it was uncontradicted. See *Quock Ting v. United States*, 140 U.S. 417, 420, 11 S.Ct. 733, 734, 35 L.Ed. 501 (1891) ("There may be such an inherent improbability in the statements of a witness as to induce the court or jury to disregard his evidence, even in the absence of any direct conflicting testimony."). See also *Archer v. Commissioner*, 227 F.2d 270, 273 (5th Cir. 1955); *Boyett v. Commissioner*, 204 F.2d 205, 208 (5th Cir. 1953).

To counter Mr. Kamerschen's opinion, Windmere relied on Norelco's 1984 income statements, "which listed advertising in a category entitled variable expenses." The court rejected this evidence as insufficient to create an issue for the jury because "[i]t is clear that such an accounting record cannot alone support the classification of advertising as a variable expense for economic purposes." As was the case with Mr. Kamerschen's expert testimony, however, this was evidence that the jury was entitled to consider in determining whether the advertising expenses were variable or fixed costs. Indeed, the Areeda and Turner antitrust treatise, which the district court cited as authority for rejecting Philips' own characterization of its advertising expenses

as variable costs, states that "we have defined marginal and average variable cost to include advertising and other promotional expenditures." 3 P. Areeda & D. Turner, *Antitrust Law* ¶ 721a, at 191 (1978).

Similarly, we conclude that, in determining the amount of Philips' advertising expenses that are variable costs, the proper treatment of the approximately \$6.6 million Philips received from its Dutch parent in 1985 was an issue for the jury to decide.

2. The question whether Philips advertising expenses should be allocated to the 1615 and 1320 models on a per unit basis or on the basis of revenue received also was a matter for the jury and not for the court to decide. We reach that same conclusion with respect to the propriety of Windmere's use of 1985 projections, rather than Philips' actual operating costs (which apparently were not available to Windmere), to determine Philips' costs of batteries, freight and handling.

#### IV

It is unfortunate that, as a result of our decision, the lengthy and complex issues involved in Windmere's antitrust counterclaim will have to be retried. That, however, is the consequence of the district court's directing a verdict rather than allowing the case to go to the jury. As the Eighth Circuit stated, in language that applies equally to this case:

In short, the case was not clear enough to justify a directed verdict. If this case had been tried to the court, we would have had no difficulty in affirming, as not clearly erroneous, a finding for [Philips] supported by the opinion the District Court rendered here. But this case was not tried to the court. It

should have been permitted to go to the trier of fact.

*Dace v. ACF Indus., Inc.*, 722 F.2d 374, 379 (8th Cir. 1983). The court continued in a footnote:

This case illustrates again that it is usually better practice for a district court, faced with a motion for directed verdict, to allow the case to go to the jury, and address the issue by way of judgment n.o.v. if necessary. The jury may find for the moving party, in which case the issue disappears. If the verdict is against the moving party, and if judgment n.o.v. is granted, and if this Court decides on appeal that it should have been denied, the verdict can simply be reinstated, and no new trial is necessary.

*Id.* at 379-80 n.9. *Accord Mattivi v. South African Marine Corp., "Huguenot"*, 618 F.2d 163, 166 n.2 (2d Cir. 1980); *Jamesbury Corp. v. Litton Indus. Prods., Inc.*, 839 F.2d 1544, 1550, 5 USPQ2d 1779, 1784 (Fed. Cir. 1988).

### CONCLUSION

The order of the district court granting a directed verdict against Windmere on its antitrust counterclaim is reversed, and the case is remanded to the district court for a new trial on that counterclaim.

REVERSED AND REMANDED.

PAULINE NEWMAN, Circuit Judge, with whom MARKEY, Chief Judge, joins, dissenting.

I respectfully dissent, for I believe that the district court correctly directed a verdict in favor of the Philips companies with respect to the asserted violation of Section 2 of the Sherman Act.

Perhaps a more cautious, or less confident, style of trial management would have been to allow the jury to reach a verdict and then review the decision. However, the law of the Eleventh and Fifth Circuits fully supports the procedure followed. *See, e.g., J & H Auto Trim Co. v. Bellefonte Insurance Co.*, 677 F.2d 1365, 1368 (11th Cir. 1982) ("There must be a conflict in substantial evidence to create a jury question.") (quoting *Boeing Co. v. Shipman*, 411 F.2d 365, 375 (5th Cir. 1969) (en banc)); *Malcolm v. Marathon Oil Co.*, 642 F.2d 845, 848 (5th Cir.) (the non-moving party must present evidence sufficient to create a jury question as to each element of the claim), *cert. denied*, 454 U.S. 1125, 102 S.Ct. 975, 71 L.Ed.2d 113 (1981).

In a carefully reasoned opinion, applying the standards of the Supreme Court and the Eleventh and Fifth Circuits, the district court held that Windmere's evidence was "simply insufficient to permit the trier of fact to find facts in connection with this matter". Review of the record and arguments shows that the district court was correct when it held that, as a matter of law, Windmere had not adduced sufficient evidence to support a jury verdict in its favor on the asserted Section 2 violation. The most stalwart defender of jury trials must also defend the authority of the trial judge to manage the trial and, when appropriate, to direct the verdict. *Galloway v. United States*, 319 U.S. 372, 392-95, 63 S.Ct. 1077, 1088-90, 87 L.Ed. 1458 (1943).

A

In response to a suit for patent infringement and for unfair competition (based on trade dress), Windmere asserted a counterclaim of monopolization and attempt to monopolize against the Philips companies under Sec-



tion 2 of the Sherman Act. Other antitrust counter-claims, also decided against Windmere on the ground of insufficient evidence, are not before us.

The district court stated that "Windmere had failed to present substantial evidence sufficient to create a jury question on at least one element of its antitrust claim — the willful acquisition or maintenance of monopoly power via predatory pricing". The district court held, correctly, that unless Windmere were able to create a jury question on this element, Windmere could not prevail on its Sherman Act charge. See *Malcolm v. Marathon Oil, supra*.

The court thus concentrated on Windmere's evidence on the issue of predatory pricing and concluded that, as a matter of law, Windmere had not presented sufficient evidence to create a jury question on the essential premises thereof. Applying *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71, 86 S.Ct. 1698, 1703-04, 16 L.Ed.2d 778 (1966), the district court observed that it is not illegal to lower one's price in view of competition, (or in this case to bring in additional models at low price, without lowering the price of the existing models) unless in so doing the pricing is "predatory". The applicable law on determination of predatory pricing has recently been reviewed in *Cargill, Inc. v. Monfort of Colorado, Inc.*, 479 U.S. 104, 117 n.12, 107 S.Ct. 484, 492 n.12, 93 L.Ed.2d 427 (1986), as follows:

No consensus has yet been reached on the proper definition of predatory pricing in the antitrust context, however. For purposes of decision in *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574 [106 S.Ct. 1348, 89 L.Ed.2d 538] (1986), for example, we defined predatory pricing as either "(i) pricing below the level necessary to

sell their products, or (ii) pricing below some appropriate measure of cost." *Id.*, at 585, n.8 [106 S.Ct. at 1355, n.8]. Definitions of predatory pricing also vary among the Circuits. Compare *Arthur S. Langenderfer, Inc. v. S.E. Johnson Co.*, 729 F.2d 1050, 1056-57 (CA 6) (pricing below marginal or average variable cost presumptively illegal, pricing above such cost presumptively legal), cert. denied, 469 U.S. 1036 [105 S.Ct. 511, 83 L.Ed.2d 401] (1984), with *Transamerica Computer Co. v. International Business Machines Corp.*, 698 F.2d 1377 (CA 9) (pricing above average total costs may be deemed predatory upon showing of predatory intent), cert. denied, 464 U.S. 955 [104 S.Ct. 370, 78 L.Ed.2d 329] (1983).

The district court, following this direction, looked to the precedent of its own circuit for elaboration of the method of determining predatory pricing. In *International Air Industries, Inc. v. American Excelsior Co.*, 517 F.2d 714, 724 (5th Cir. 1975), cert. denied, 424 U.S. 943, 96 S.Ct. 1411, 47 L.Ed.2d 349 (1976), the Fifth Circuit held:

In short, in order to prevail as a matter of law, a plaintiff must at least show that either (1) a competitor is charging a price below his average variable cost in the competitive market or (2) the competitor is charging a price below its short-run, profit-maximizing price and barriers to entry are great enough to enable the discriminator to reap the benefits of predation before new entry is possible. [footnotes omitted]

The first of the two *International Air* tests, pricing below average variable cost, was the lesser standard for Windmere to meet. It is a commonly used test for predatory pricing in the Fifth Circuit, see, e.g., *Adjusters*



*Replace-A-Car Inc. v. Agency Rent-A-Car Inc.*, 735 F.2d 884 (5th Cir. 1984), *cert. denied*, 469 U.S. 1160, 105 S.Ct. 910, 83 L.Ed.2d 924 (1985); and in other circuits, *see, e.g., MCI Communications Corp. v. American Telephone & Telegraph Co.*, 708 F.2d 1081 (7th Cir.) (criticizing the profit maximizing test), *cert. denied*, 464 U.S. 891, 104 S.Ct. 234, 78 L.Ed.2d 226 (1983); *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 236 (1st Cir. 1983); *Northeastern Telephone Co. v. American Tel. & Tel. Co.*, 651 F.2d 76, 87-88 (2d Cir. 1981), *cert. denied*, 455 U.S. 943, 102 S.Ct. 1438, 71 L.Ed.2d 654 (1982); *Southern Pacific Comm. Co. v. American Tel. & Tel. Co.*, 556 F.Supp. 825, 927, 964 (D.D.C. 1982), *aff'd*, 740 F.2d 1011 (D.C. Cir. 1984), *cert. denied*, 470 U.S. 1005, 105 S.Ct. 1359, 84 L.Ed.2d 380 (1985).

From the record and argument, it is apparent that Windmere's only way of attempting to show price below average variable cost was by including Philips full advertising costs as variable costs, attributed per unit to the reintroduced obsolete models 1320 and 1615. Although the parties argue the point on this appeal — the majority opinion refers to a "vigorous dispute" — the district court looked to the evidence.

The district court found that Windmere had presented "no record evidence" to support either its method of allocation of advertising costs or its challenge to the total advertising expenditures; and that on Norelco's established advertising expenditures of \$17,558,000, of which \$6.6 million was paid by NVP, "even according to the testimony of Windmere's Vice President of Finance, Burton Honig, Norelco achieved a profit on the sale of the 1320 and 1615 in 1985". Although Windmere argues the arithmetic on appeal, there was no evidence

to the contrary. Argument of counsel is not evidence, as the Fifth Circuit has discussed:

Unsupported, self-serving testimony is not substantial evidence sufficient to create a jury question. *Yoder Brothers, Inc. v. California-Florida Plant Corp.*, 537 F.2d 1347, 1371 (5th Cir. 1976), *cert. denied*, 429 U.S. 1094, 97 S.Ct. 1108, 51 L.Ed.2d 540 (1977). Similarly, inferences can not stand in the face of uncontradicted and substantial evidence to the contrary. *Scott Medical Supply Co. v. Bedsole Surgical Supplies, Inc.*, 488 F.2d 934, 937 (5th Cir. 1974).

*Comfort Trane Air Conditioning Co. v. Trane Co.*, 592 F.2d 1373, 1383 (5th Cir. 1979). *Accord Janich Bros., Inc. v. American Distilling Co.*, 570 F.2d 848, 858 (9th Cir. 1977), *cert. denied*, 439 U.S. 829, 99 S.Ct. 103, 58 L.Ed.2d 122 (1978) (affirming directed verdict for a defendant on a predatory pricing claim because of the inadequacy of plaintiff's accounting evidence: "a firm's marginal costs cannot be ascertained from conventional business records. Conventional records do not provide information which a jury can use as evidence of marginal cost.")

The district court remarked on the absence of evidence of any advertising whatsoever of the 1615 and 1320 models; and the court observed that Windmere had the burden of proof. Referring to Windmere's reliance on its proposed projections of Philips' costs rather than actual cost data, the district court held that "[a]lthough some use of projections undoubtedly is necessary, we find that where such use alone makes the difference between a loss or a profit on an item that use is too extensive." The district court cited the Supreme Court in *Matsushita Electric Ind. Co. v. Zenith Radio Corp.*, 475

U.S. 574, 589, 106 S.Ct. 1348, 1357, 89 L.Ed.2d 538 (1986) on the necessity of "direct evidence" of predatory pricing schemes.

Following the guidance of *Matsushita*, the district court concluded that "Windmere's evidence of below-cost pricing does not meet the substantial evidence standard necessary to withstand a directed verdict." No error has been shown in the district court's careful analysis of the evidence presented, or in its conclusion that the minimum evidentiary standards on which a jury could have reached a verdict of predatory pricing had not been met.

## B

Windmere argues in the alternative that the district court should have applied to its pricing analysis the second standard of *International Air*, 517 F.2d at 724, viz. that "the competitor is charging a price below its short-run, profit-maximizing price and barriers to entry are great enough to enable the discriminator to reap the benefits of predation before new entry is possible". The Fifth Circuit Court explained the profit maximizing test as follows:

This standard should be applied only when the barriers to entry are extremely high. The lower the barriers to entry in a market, the closer to marginal cost a monopolist would have to set its price in order for a plaintiff to prevail as a matter of law, for we see no social utility in insuring the survival of inefficient firms where a new entry is possible.

*International Air*, 517 F.2d at 725 n.31.

The district court did not rely in its decision on the presence or absence of barriers to entry, presumably because Windmere did not argue that it encountered any

actual barriers. It was undisputed that the Izumi shavers, labeled with the Ronson trademark, experienced no entry barriers whatsoever. In its first year Windmere sold six million dollars' worth, double its projections. In its 1984 Annual Report Windmere stated:

The most exciting new product introduced in 1984 was the Ronson shaver line, which included three microfoil and two rotary shavers. We were successful in gaining distribution of our shavers to many of the major retailers in America. This was the most successful product introduction in the Company's history.

Windmere's sole argument as to entry barriers is based on its reference to negotiations for the Schick trademark — an event whose significance is belied by Windmere's apparently ready acquisition of the Ronson mark, and its immediate market success. *Accord*, *D.E. Rogers Associates, Inc. v. Gardner-Denver Co.*, 718 F.2d 1431, 1434 (6th Cir. 1983), *cert. denied*, 467 U.S. 1242, 104 S.Ct. 3513, 82 L.Ed.2d 822 (1984) (ease of entry shows lack of barriers to entry). In addition, Windmere's Vice President of Sales testified that the Sunbeam brand name was available and could be used to market electric shavers.

Since Windmere did not meet the threshold burden, under the profit-maximizing test, of presenting evidence whereby a jury could find that it experienced high barriers to entry, I respectfully disagree with my colleagues' reliance on entry barriers as contributing substantial evidence for the jury: this is the first of the majority's four-point basis for remand for jury trial. Nor can I agree that it is probative of violation of the Sherman Act to introduce a lower-price model in response to a competitor's low-price model (the majority's second point); or to engage in vigorous price competition (the majority's third



point). The fourth point, on which the negotiations concerning the Schick trademark were relied on as evidence of intent to monopolize, even if established, is not probative without below-cost pricing. Industrial competition is not benevolent, and causing loss of profits to a competitor, or making the market less attractive to a competitor, whereby a less efficient or higher cost competitor leaves the market, is not itself a violation of antitrust law. As stated in *Ball Memorial Hospital, Inc. v. Mutual Hospital Ins.*, 784 F.2d 1325, 1338, 1339 (7th Cir. 1986):

[I]ntent to harm rivals is not a useful standard in antitrust . . . . Vigorous competitors intend to harm rivals, to do all the business if they can. To penalize this intent is to penalize competition.

Windmere's position, simply put, is that Philips was obliged to preserve its pricing at the levels of the *status quo ante*, and neither reduce its price nor bring in a lower-price model. Windmere refers approvingly to Remington's failure to reduce its prices when Windmere introduced its Ronson brand foil razor. Thus Windmere argues that Philips must be barred by the antitrust laws from pricing its obsolete 1320 and 1615 models at lower prices than those at which they had sold when they were the current models (the 1615 having been offered at \$28.00 some years before, and now reoffered at \$17.50), since the purpose was to offer these models at a lower price than that at which Windmere was offering the Izumi shaver.

It is not the law that Philips was required to preserve its prices and products as they were before Windmere offered the Izumi product at a lower price. "It is not anticompetitive for a company to reduce prices to meet lower prices already being charged by competitors.

Indeed, "[t]o force a company to maintain non-competitive prices would be to turn the antitrust laws on their head." " *D.E. Rogers*, 718 F.2d at 1435 (citations omitted) (quoting *Richter Concrete Corp. v. Hilltop Concrete Corp.*, 691 F.2d 818, 826 (6th Cir. 1982)). The district court applied this principle in its statement that "[p]rice cutting between competitors as a general rule is precisely the type of conduct our laws are designed to promote." Pertinent is the Supreme Court's recent discussion in *Matsushita*, 475 U.S. at 594, 106 S.Ct. at 1360:

But cutting prices in order to increase business often is the very essence of competition. Thus, mistaken inferences in cases such as this one are especially costly, because they chill the very conduct the antitrust laws are designed to protect. See *Monsanto*, supra [465 U.S. 752], at 763-764, 79 L.Ed.2d 775, 104 S.Ct. 1470 [at 1470-1471 (1984)]. "[W]e must be concerned lest a rule or precedent that authorizes a search for a particular type of undesirable pricing behavior end up by discouraging legitimate price competition." *Barry Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 234 (CA 1 1983).

The district court considered Windmere's arguments as to the applicable precedent, including a careful analysis of *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 105 S.Ct. 2847, 86 L.Ed.2d 467 (1985). The court, for the purpose of this motion, accepted Windmere's definition of the relevant market as limited to rotary shavers, but did not agree with Windmere that it is always a violation of the Sherman Act to reduce prices if the result is to "deliberately remove competitors", in Windmere's words, or that Philips was required to refrain from reacting to Windmere's importation of the Izumi product. The court, following *International Air*,



held that it is insufficient evidence of Sherman Act violation to show that a "large entrenched firm with a dominant market share", *id.* at 721, reduced its prices in "a program of stunting the possible growth of [the new entrant]". *Id.* at 719. The court held, as *International Air* requires, that it is also necessary to show that the sales were below average variable cost. *Id.* at 724. *It is not the law that a dominant company must make room for new entrants.*

The Fifth Circuit has discussed the role of intent, stating in *Adjusters Replace-A-Car, Inc. v. Agency Rent-A-Car, Inc.*, 735 F.2d 884, 887 (5th Cir. 1984), *cert. denied*, 469 U.S. 1160, 105 S.Ct. 910, 83 L.Ed.2d 924 (1985) that:

A statement of intent to compete . . . even if perceived as a threat is not unlawful. Such a manifestation of intent to triumph in the competitive market, in the absence of unfair, anticompetitive or predatory conduct, is not enough to establish an antitrust violation.

(quoting *Hayes v. Solomon*, 597 F.2d 958, 977 (5th Cir. 1979), *cert. denied*, 444 U.S. 1078, 100 S.Ct. 1028, 62 L.Ed.2d 761 (1980)). It is not the purpose of the antitrust laws to require that lawful monopolist "hold [ ] an umbrella over inefficient competitors". *Olympia Equipment Leasing Co. v. Western Union Telegraph Co.*, 797 F.2d 370, 375 (7th Cir. 1986), *cert. denied*, 480 U.S. 934, 107 S.Ct. 1574, 94 L.Ed.2d 765 (1987).

Today it is clear that a firm with lawful monopoly power has no general duty to help its competitors, whether by holding a price umbrella over their heads or by otherwise pulling its competitive punches.

*Id.* at 375.

Philips was not required to limit its products to those pre-existing at higher prices, to provide an "umbrella" for the importation by Windmere of the cheaper Izumi model, or to refrain from selling an even cheaper model, even for a limited time. The standard of the Fifth and Eleventh Circuits is that an essential element of a Section 2 violation is proof of sale below a fair measure of cost, as discussed in *International Air*. We, sitting in review of the district court's application of Fifth/Eleventh Circuit law, are unauthorized to set a different standard.

### C

The district court concluded that there was insufficient evidence to create a jury question on whether Philips was pricing the re-introduced models below cost. It was the trial court's obligation to assure that the jury was presented with evidence, not appeals to "passion and prejudice". *Connell v. Sears Roebuck & Co.*, 722 F.2d 1542, 1546 (Fed. Cir. 1983). The Court stated in *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 124, 89 S.Ct. 1562, 1577, 23 L.Ed.2d 129 (1969), that "speculation and guesswork" can not support a verdict of antitrust violation. *See also Comfort Trane Air Conditioning Co. v. Trane Co.*, 592 F.2d 1373, 1383 (5th Cir. 1979) (directed verdict granted when plaintiff failed to present substantial evidence that defendant's illegal antitrust activities were a material cause of plaintiff's injuries). *Accord Broadway Delivery Corp. v. United Parcel Service, Inc.*, 651 F.2d 122, 131 (2d Cir.), *cert. denied*, 454 U.S. 968, 102 S.Ct. 512, 70 L.Ed.2d 384 (1981) (motion to dismiss after jury trial granted because plaintiff's proof "did not permit a reasonable fact-finder [to make] a careful assessment of the relationship between the defendants' prices and costs"); *MCI Communications*

*Corp. v. American Tel. & Tel. Co.*, 708 F.2d 1081, 1125, 1126, 1127 (7th Cir.) (affirming a directed verdict for defendant on a predatory pricing claim because of insufficient evidence), *cert. denied*, 464 U.S. 891, 104 S.Ct. 234, 78 L.Ed.2d 226 (1983); *Janich Brothers, Inc. v. American Distilling Co.*, 570 F.2d 848, 858 (9th Cir. 1977) (jury verdict set aside because of insufficient evidence of predatory pricing), *cert. denied*, 439 U.S. 829, 99 S.Ct. 103, 58 L.Ed.2d 122 (1979). See generally Areeda & Turner, *Predatory Pricing and Related Practices Under Section 2 of the Sherman Act*, 88 Harv.L.Rev. 697 (1975).

The district court correctly concluded that Windmere had not adduced sufficient evidence to create a jury question of its Section 2 Sherman Act claim, as a matter of law. The court thus acted within its authority in directing the verdict on this issue, and should be affirmed.

**APPENDIX G – PRETRIAL STIPULATION PURSUANT TO LOCAL RULE 14(D) FILED IN THE SOUTHERN DISTRICT OF FLORIDA, DATED JANUARY 18, 1990**

[Caption Omitted in Printing]

**PRETRIAL STIPULATION  
PURSUANT TO LOCAL RULE 14(D)**

**I. NATURE OF THE ACTION**

Plaintiff, N.A. Philips, claims that Windmere has competed unfairly by copying the overall appearance or trade dress of its Norelco razors in violation of 15 U.S.C. §1125, Section 43(a) of the Lanham Act. N.A. Philips seeks damages and injunctive relief.

Windmere has brought an antitrust counterclaim. Count I of Windmere's counterclaim alleges "Unlawful Attempt to Monopolize and Monopolization" and contends that plaintiffs and N.V. Philips, as a single enterprise, have committed various acts in violation of §2 of the Sherman Act.

Windmere also believes that it may prosecute Count II of Windmere's counterclaim entitled "Conspiracy to Restrain Trade." The Philips companies contend that because this claim was decided against Windmere by orders dated April 30 and June 8, 1987 and because these orders were not reversed on appeal, Windmere may not prosecute Count II of its counterclaim. This issue has been briefed to the Court.

Windmere also contends that it may prosecute a claim that N.A. Philips and N.V. Philips (a major stockholder) conspired to monopolize and maintain a monopoly in violation of §2 of the Sherman Act. The Philips companies contend that no such claim is pleaded in Windmere's Amended Counterclaim or Third Party Complaint, filed June 18, 1985. This issue was included in the "Wind-

mere Disputed Factual Issues" section of the prior Pretrial Stipulation and was briefed in the Federal Circuit. Also, Windmere contends that this issue was identified by Windmere in its January, 1986 responses to N.V. Philips' Interrogatories.

## II. BASIS OF JURISDICTION

The Court has jurisdiction over the various claims under 15 U.S.C. §§ 1, 2, 4, 13, 15, 18, 26, 72, 1121 and 1125; 28 U.S.C. §§ 1331, 1332, 1337, 1338 and 2201; and 35 U.S.C. §§ 1 *et seq.*

## III. PLEADINGS RAISING THE ISSUES

1. Amended Complaint for Patent Infringement and Unfair Competition, filed November 21, 1984.

2. Amended Answer, Counterclaim and Third Party Complaint of Defendant Windmere Corporation and Demand for Jury Trial on All Issues, filed June 18, 1985 (leave to file granted September 10, 1985).

3. Reply of U.S. Philips Corporation and North American Philips Corporation to Windmere's Amended Counterclaim, filed September 27, 1985.

4. Answer of N.V. Philips Gloeilampenfabrieken to Amended Third Party Complaint of Windmere Corporation, filed September 27, 1985.

## IV. OUTSTANDING MOTIONS AND OTHER MATTERS REQUIRING THE COURT'S ATTENTION

1. The parties have a number of disputes regarding additional discovery which they hope to raise with the Court on January 19, 1990.

2. The Philips Companies' Motion To Hold Izumi In Contempt is outstanding.

3. U.S. Philips, N.A. Philips, and N.V. Philips ("Philips") have submitted a "Memorandum of Law Directed to Windmere's Purported Section 1 Claim." Windmere responded on December 15, 1989 and Philips' reply was filed on December 21, 1989.

4. To the extent that the objections to Windmere's antitrust exhibits made by U.S. Philips, N.A. Philips, and N.V. Philips differ from those set out in the Pretrial Stipulation filed with the Court in 1986, Windmere objects to those objections. Also, to the extent that the exhibit list of U.S. Philips, N.A. Philips, and N.V. Philips contains exhibits not contained in the 1986 Pretrial Stipulation, Windmere objects to those exhibits, although it reserves the right to waive these objections after it has had an opportunity to review those exhibits.\*

## V. STATEMENT OF STIPULATED FACTS

1. U.S. Philips is a Delaware corporation with its principal place of business in New York, New York.

2. N.A. Philips is a Delaware corporation with its principal place of business in New York, New York.

3. Windmere is a Florida corporation and has a regular and established place of business in Miami Lakes, Florida.

4. Izumi is a corporation organized and existing under the laws of Japan.

5. N.V. Philips is a corporation organized and existing under the laws of the Netherlands.

6. From 1984 to 1986 N.V. Philips owned approximately 60% of the shares of N.A. Philips. As of November 2, 1987, N.A. Philips became a wholly-owned, indirect subsidiary of N.V. Philips.

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\*See rider page 4-A inserted by Windmere.



7. N.A. Philips has sold two-headed rotary electric razors since 1948 and three-headed rotary electric razors since 1966 in interstate commerce in the United States under the Norelco trademark. These Norelco razors are manufactured in the Netherlands by N.V. Philips.

Windmere contends (1) that its exhibits and witnesses are the exhibits and witnesses listed in the 1986 Pretrial Stipulation except for certain substitutions, and (2) that Philips has added some post-1985 documents to its new exhibit list and some other matters to this Pretrial Stipulation not included in the 1986 Stipulation. Windmere objects to that practice because it contends that there was an agreement on limited new discovery. Philips disagrees with these contentions.

In addition, post-1985 discovery is contemplated by Philips through its memorandum served yesterday. If the Court permits the addition of substantial information relating to the years 1986-1988, Windmere identifies the additional exhibits listed in Schedule D.

8. The specific designs of N.A. Philips' three-headed rotary razor models have varied, one from another, with respect to individual design details.

9. Windmere's sales of its RR-1, RR-2, RR-3 and RR-4 razors are charged under N.A. Philips' unfair competition count. These Windmere shavers were manufactured by Izumi.

10. Izumi manufactured and sold to Windmere the following numbers of rotary electric razors:

<u>RR-1</u>	<u>RR-2</u>	<u>RR-3</u>	<u>RR-4</u>
132,000	219,960	54,972	59,982

Windmere sold, from June, 1984 to October 31, 1985, 94,503 RR-1 razors at an average sales price of \$31.18;

165,254 RR-2 razors at an average sales price of \$17.30; 42,040 RR-3 razors at an average sales price of \$25.17; and 32,879 RR-4 razors at an average sales price of \$16.89.

11. On June 10, 1986, U.S. Design Patent No. 284,224 (the '224 patent) issued to Izumi Seimitsu Kogyo Kabushiki Kaisha.

12. On September 20, 1988, U.S. Design Patent No. 297,772 (the '772 patent) issued to Izumi Seimitsu Kogyo Kabushiki Kaisha.

13. On July 18, 1967, U.S. Design Patent No. 208,142 (the '142 patent) issued to North American Philips Company, Inc.

14. On February 9, 1971, U.S. Design Patent No. 219,901 (the '901 patent) issued to U.S. Philips Corporation.

15. On December 12, 1972, U.S. Design Patent No. 225,487 (the '487 patent) issued to U.S. Philips Corporation.

16. On August 5, 1975, U.S. Design Patent No. 236,239 (the '239 patent) issued to U.S. Philips Corporation.

17. On August 5, 1975, U.S. Design Patent No. 236,240 (the '240 patent) issued to U.S. Philips Corporation.

18. On August 5, 1975, U.S. Design Patent No. 236,241 (the '241 patent) issued to U.S. Philips Corporation.

19. On October 21, 1975, U.S. Design Patent No. 237,320 (the '320 patent) issued to U.S. Philips Corporation.

20. On December 2, 1975, U.S. Design Patent No. 237,911 (the '911 patent) issued to U.S. Philips Corporation.

21. On December 2, 1975, U.S. Design Patent No. 237,913 (the '913 patent) issued to U.S. Philips Corporation.

22. On February 10, 1976, U.S. Design Patent No. 238,826 (the '826 patent) issued to U.S. Philips Corporation.

23. On March 9, 1976, U.S. Design Patent No. 239,144 (the '144 patent) issued to U.S. Philips Corporation.

24. On April 6, 1976, U.S. Design Patent No. 239,473 (the '473 patent) issued to U.S. Philips Corporation.

25. On September 14, 1976, U.S. Design Patent No. 241,482 (the '482 patent) issued to U.S. Philips Corporation.

26. On November 30, 1976, U.S. Design Patent No. 242,580 (the '580 patent) issued to U.S. Philips Corporation.

27. On March 15, 1977, U.S. Design Patent No. 243,719 (the '719 patent) issued to U.S. Philips Corporation.

28. On December 20, 1977, U.S. Design Patent No. 246,731 (the '731 patent) issued to U.S. Philips Corporation.

29. On June 16, 1981, U.S. Design Patent No. 259,591 (the '591 patent) issued to U.S. Philips Corporation.

30. On July 13, 1982, U.S. Design Patent No. 265,431 (the '431 patent) issued to U.S. Philips Corporation.

31. On July 21, 1981, U.S. Design Patent No. 259,965 (the '965 patent) issued to U.S. Philips Corporation.

32. On September 6, 1983, U.S. Design Patent No. 270,487 (the '487 patent) issued to U.S. Philips Corporation.

33. On March 11, 1986, U.S. Design Patent No. 282,979 (the '979 patent) issued to U.S. Philips Corporation.

34. On March 18, 1986, U.S. Design Patent No. 283,059 (the '059 patent) issued to U.S. Philips Corporation.

35. On September 16, 1986, U.S. Design Patent No. 285,731 (the '731 patent) issued to U.S. Philips Corporation.

36. On September 30, 1986, U.S. Design Patent No. 285,979 (the '979 patent) issued to U.S. Philips Corporation.

37. On October 7, 1986, U.S. Design Patent No. 286,089 (the '089 patent) issued to U.S. Philips Corporation.

38. On October 7, 1986, U.S. Design Patent No. 286,090 (the '090 patent) issued to U.S. Philips Corporation.

## VI. STATEMENT OF FACTS, NOT ADMITTED, WHICH ARE NOT TO BE CONTESTED AT TRIAL

### 1. Personal jurisdiction over N.V. Philips.

2. Pursuant to the Court's December 15, 1989 Order, the Philips Companies were precluded from contending that the relevant geographic market included Western Europe, Japan and the United States. Thus, the relevant market for the purposes of Windmere's antitrust counterclaim shall be the United States.

## VII. ISSUES OF FACT TO BE LITIGATED AT TRIAL

### A. Unfair Competition Issues the Parties Agree Are To Be Litigated At Trial

1. If Windmere is found to have committed acts of unfair competition, whether N.A. Philips has been damaged by Windmere's sales of Ronson brand three-headed

rotary electric razors that are alleged to embody the "Norelco Design Look."

2. If Windmere is found to have committed acts of unfair competition, whether such acts were willful and deliberate.

**B. Unfair Competition Issues The Parties Disagree As To Whether They Are To Be Litigated, Or As To The Statement Of The Issue**

1. N.A. Philips contends there is an issue of whether the three-headed rotary electric razors having the "telephone hook" design marketed by Norelco since 1975 constitute a "family" of razors.

2. N.A. Philips contends there is an issue of whether the overall external appearance of Norelco's "telephone hook" family of razors has an overall design impression, trade dress or look referred to as the "Norelco Design Look." N.A. Philips contends that the statements numbered 1 and 2 above, in this subsection, more correctly state the issues to be tried than what Windmere proposes below in this paragraph. Windmere contends that the correct statement of issues one and two is whether rotary shavers marketed by Norelco have an overall outer design impression, look, or trade dress, referred to as the "Norelco design look." Windmere states further that NAPC agreed that this was an issue to be tried in the pretrial statement filed before the first trial.

3. N.A. Philips contends there is an issue of whether purchasers or likely purchasers of electric razors, otherwise known as "members of the purchasing public," associate razors which embody the primarily non-functional "Norelco Design Look" with N.A. Philips and/or Norelco. N.A. Philips contends that the statement

above, in this paragraph, more correctly states the issue to be tried than what Windmere proposes below in this paragraph. Windmere contends that there is an issue whether purchasers, and likely purchasers, of electric razors (the "purchasing public") associate razors having the Norelco design look with Norelco, N.A. Philips, and/or Philips because of non-functional aspects of the Norelco design look. Windmere states further that NAPC agreed that this was an issue to be tried in the original pretrial stipulation filed prior to the first trial.

4. N.A. Philips contends there is an issue of whether members of the purchasing public are likely to be confused, misled or deceived into believing that Windmere's Ronson brand three-headed rotary electric razors were made by, approved by, sponsored by or in some way associated with N.A. Philips or Norelco because of the alleged substantial similarities in appearance between these Ronson razors and Norelco's family of razors which embody the primarily non-functional "Norelco Design Look." N.A. Philips contends that the statement above, in this paragraph, more correctly states the issue to be tried than what Windmere proposes below in this paragraph. Windmere contends that there is an issue of whether members of the purchasing public are likely to be confused, misled or deceived into believing that each of the models of the Ronson rotary electric shavers were made by, approved by, sponsored by, and/or are in some manner associated with Norelco, N.A. Philips, and/or Philips as a result of substantial similarities in appearance between the Ronson rotary electric razor and the primarily non-functional aspects of the Norelco design look. Windmere states further that NAPC agreed that this was an issue to be tried in the pretrial stipulation filed prior to the first trial.



5. N.A. Philips contends there is an issue of whether members of the purchasing public have actually been confused by reason of the alleged substantial similarities between Ronson three-headed rotary electric razors and Norelco's family of razors which embody the primarily non-functional "Norelco Design Look." N.A. Philips contends that the statement above, in this paragraph, more correctly states the issue to be tried than what Windmere proposes below in this paragraph. Windmere contends that there is an issue whether members of the purchasing public have been "actually confused" by reason of the alleged similarity of the overall outer design appearance, look, or trade dress for the Ronson rotary razors with the alleged "Norelco design look." Windmere states further that NAPC agreed that this was an issue to be tried in the original pretrial stipulation filed prior to the first trial.

6. N.A. Philips contends there is an issue of whether Norelco rotary electric razors enjoy a reputation of high quality and performance with the purchasing public. Windmere disagrees that this is a proper issue.

7. N.A. Philips contends there is no longer an issue of whether the overall external appearance of the "Norelco Design Look," which emanates from the razors in Norelco's "telephone hook" family of razors, is primarily non-functional. Specifically, N.A. Philips contends that the issuance of U.S. Design Patent Nos. 284,224 and 297,772, which by definition cover ornamental and not functional designs, establishes that N.A. Philips' "telephone hook" design is primarily non-functional. Thus, N.A. Philips contends that Windmere is estopped from asserting that the overall appearance of the "telephone hook" design is primarily functional. N.A. Philips contends that any stipulation it made on this issue prior to

the first trial was made at a time before the aforementioned design patents were discovered by N.A. Philips and before the court ordered a new trial by reason of the failure to discover such design patents. Windmere contends that there is an issue of whether the alleged Norelco design look is primarily non-functional. Windmere states further that N.A. Philips agreed that this was an issue to be tried in the pretrial stipulation filed before the first trial. Windmere contends that the existence of the above-mentioned design patents in no way obviates the need to litigate the functionality of the alleged Norelco Design Look.

8. N.A. Philips contends that whether the Sears Rotomatic III embodies the so-called "NAPC Design Impression" is irrelevant to any issue in this litigation. In the pretrial stipulation filed before the first trial, NAPC agreed to the following as Stipulated Fact: "The Sears Rotomatic III does not embody the so-called 'Norelco Design Look.' " Windmere contends that NAPC should be bound by this stipulated fact and thus this proposed stipulated fact should be presented to the jury.

9. Windmere contends that there is an issue of whether N.A. Philips is precluded from relief because it is guilty of laches and estoppel arising from the timing of the commencement of the suit against Windmere. Windmere states further that NAPC agreed that this was an issue to be tried in the pretrial stipulation filed before the first trial. NAPC contends this is not an issue to be tried.

10. Windmere contends that there is an issue of whether N.A. Philips' claim for unfair competition based on the alleged "Norelco Design Look" is barred by misuse thereof. Windmere states further that NAPC agreed that this was an issue to be tried in the pretrial stipula-

tion filed before the first trial. NAPC contends this is not an issue to be tried.

11. Windmere contends that there is an issue of whether the various different models of the three-headed rotary electric shavers having a "telephone hook" shape that were and are marketed by Norelco embody a distinctive, definable, common appearance referred to as the alleged "Norelco Design Look." N.A. Philips contends that such issue has no proper legal foundation.

12. Windmere contends that there is an issue of whether this "telephone hook" shape for rotary shavers is an ordinary shape that has been generally used for three-headed rotary shavers. N.A. Philips contends that such issue has no proper legal foundation, but would agree to its inclusion as a fact to be tried if the words "ordinary shape" were changed to merely "shape," and if the nomenclature "Norelco Design Look" were used instead of "telephone hook shape."

13. Windmere contends that there is an issue of whether, even if N.A. Philips ever had proprietary rights in the "telephone hook" design for rotary shavers, it has abandoned its exclusivity in such rights. N.A. Philips contends that the issue of "abandonment" in the exclusivity of its rights to the Norelco Design Look is no longer at issue pursuant to the Court's ruling on March 12, 1986.

14. Windmere contends that there is an issue of whether N.A. Philips has acquiesced in the long and continuous use and marketing by Izumi and Sears of three-headed rotary shavers with a "telephone hook" shape in the United States. N.A. Philips contends that the issue of any acquiescence in the use and sale of Izumi-made shavers by Sears is no longer at issue pursuant to the Court's ruling on March 12, 1986.

15. Windmere contends that there is an issue of whether the alleged "Norelco Design Look" has been abandoned by acquiescence to the marketing by others of rotary electric shavers having a similar design appearance. N.A. Philips contends that the issue of "abandonment by acquiescence" in the marketing of razors by "others," the only other being identified being Sears, is no longer at issue pursuant to the Court's ruling on March 12, 1986.

16. Windmere contends that there is an issue as to whether or not the alleged "Norelco Design Look" identifies the product itself rather than its source, and is therefore generic. N.A. Philips contends there is no proper legal foundation for this issue, but would agree to its inclusion if the words "rather than its source" were changed to "and not its source" and the words "and is therefore generic" were deleted.

17. Windmere contends that there is an issue of whether purchasers, and likely purchasers, of electric razors (the "purchasing public") associate rotary electric razors that do not have the alleged "Norelco Design Look" with Norelco, N.A. Philips and/or Philips. N.A. Philips contends that there is no proper legal foundation for considering any alleged confusion as to razors *not* accused in this litigation.

18. Windmere contends that there is an issue of whether N.A. Philips has acted improperly in its dealings with the U.S. Patent & Trademark Office in connection with its two trademark applications in attempting to obtain trademark registration for a triangular shaped faceplate for a three-headed rotary shaver. N.A. Philips contends that there is no proper legal foundation for considering trademark rights not asserted in this litigation.



19. N.A. Philips contends that there is an issue of whether U.S. Design Patent No. 284,224 (the '224 patent) claims an "ornamental design." Windmere contends that such issue has no proper legal foundation.

20. N.A. Philips contends that there is an issue of whether U.S. Design Patent No. 297,772 (the '772 patent) claims an "ornamental design." Windmere contends that such issue has no proper legal foundation.

21. Windmere contends that there are issues of whether U.S. Design Patent Nos. 236,239 (the '239 patent), 237,320 (the '320 patent), 237,911 (the '911 patent), 237,913 (the '913 patent), 246,731 (the '731 patent), 270,487 (the '487 patent), and 286,090 (the '090 patent) embody the alleged "Norelco Design Look." N.A. Philips contends that such issues have no proper legal foundation.

22. N.A. Philips contends that Mr. Shunji Izumi signed both the application which resulted in the issuance of the '224 patent and the application which resulted in the issuance of the '772 patent. Windmere contends that whether Mr. Izumi signed such patent application is irrelevant to any issue in this litigation.

#### C. Antitrust Issues the Parties Agree Are to be Litigated at Trial

1. Whether electric razors, rotary electric razors and alleged submarkets purportedly based on price are relevant markets. The following factors are factual issues that may be considered:

- a. reasonable interchangeability
- b. cross-elasticity of supply and demand
- c. industry or public recognition
- d. peculiar characteristics and uses

- e. unique production facilities
- f. distinct customers
- g. distinct prices
- h. sensitivity to price changes
- i. specialized vendors
- j. entry conditions

2. What is N.A. Philips' share of the relevant market or submarkets, if any.

3. For the relevant period, what has been the level of profits in the relevant market or submarkets for the counterclaim defendants.

4. Have counterclaim defendants controlled prices or excluded existing competition or prospective competition in such relevant market or submarkets, if any. Counterclaim defendants contend that the exclusion, if any, must be unreasonable.

5. Was there a dangerous probability of success that counterclaim defendants would be successful in an attempt to monopolize, if any.

6. Whether counterclaim defendants had any specific intent to attempt to monopolize.

7. Why the television networks discontinued the Ronson ad.

8. Was Windmere injured, in whole or in part, by any antitrust violation by counterclaim defendants and, if so, the amount of such damage.

9. The marketing of electric and/or rotary shavers in the United States.



#### D. Antitrust Issues Upon Which the Parties Disagree

##### *Windmere Disputed Factual Issues*

1. Are N.A. Philips and N.V. Philips a single entity or independent entities for the purposes of analysis under the Sherman Act.

2. Has N.A. Philips agreed with N.V. Philips to use various practices to maintain a monopoly, to foreclose competition, or to destroy a competitor.

3. Whether N.A. Philips or N.V. Philips, acting independently or by agreement, have sold models HP 1320 and 1615 or Norelco's entire razor line below an appropriate cost, with intent to maintain a monopoly by eliminating all competition.

4. Whether the market position, market power or monopoly power of N.A. Philips and/or N.V. Philips was intentionally maintained by various acts, including (a) acquisitions, (b) sham litigation, (c) advertising expenditures, (d) reducing prices on products, thereby preventing entry and operating at a loss to remove competition, (e) agreeing to subsidize losses with the intent to remove competition and maintain a monopoly and (f) controlling and agreeing on prices of products to be sold in the United States, thereby foreclosing competition, gaining a competitive advantage or destroying a competitor.

5. During 1984 and 1985, did N.A. Philips and/or N.V. Philips have monopoly power in the relevant market.

6. During the relevant time period, did N.A. Philips or N.V. Philips, acting independently or by agreement, sell products at unreasonably low prices, thereby sacrificing short-run profits in an industry where entry would not likely occur.

#### *N.A. Philips and N.V. Philips Disputed Factual Issues*

1. Did N.A. Philips acquire or obtain market power or monopoly power by means other than superior skill, foresight and industry; if so, has N.A. Philips:

- a. Sold models HP 1320 and 1615 or Norelco's entire razor line below average variable cost;
- b. Filed sham litigation;
- c. Excessively advertised for the purpose of foreclosing competition;
- d. Improperly challenged Windmere's network advertising using bribery or coercion;
- e. Made improper acquisitions.

#### VIII. ISSUES OF LAW

##### A. Unfair Competition Issues

1. Whether the alleged "Norelco Design Look" is entitled to protection under 15 U.S.C. Section 1125(a).

2. Whether Windmere has committed acts of unfair competition by selling Ronson brand rotary electric razors (i.e., RR-1, RR-2, RR-3 and RR-4) which are alleged to embody the "Norelco Design Look" if such Design Look is entitled to protection under the Lanham Act.

3. Whether N.A. Philips is entitled to increased damages and/or, if this is an exceptional case, its attorney's fees under 15 U.S.C. § 1117.

4. Whether N.A. Philips has misused any alleged rights it may have in the Norelco Design Look, rendering any such rights unenforceable.

5. If this is an exceptional case, whether Windmere is entitled to its attorney's fees under 15 U.S.C. § 1117.

## B. Antitrust Issues

1. Whether Windmere has proven the elements of a monopolization violation under §2 of the Sherman Act: (1) the possession of monopoly power in a relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.

2. Whether Windmere has proven the elements of an attempt to monopolize violation under §2 of the Sherman Act: (1) specific intent to monopolize; (2) a dangerous probability of success; (3) in a defined relevant market.

3. Whether Windmere suffered any damages by reason of any antitrust violation by counterclaim defendants, and the amount of any such damages.

### *Windmere Issues*

1. Whether Windmere has proven the elements of a violation under §1 of the Sherman Act: (1) the existence of a conspiracy among two or more separate entities (2) in an unreasonable restraint of trade or commerce in a relevant market. If such a claim remains viable, N.A. Philips and N.V. Philips contend that there is a third requirement that Windmere also must prove a significant anticompetitive effect on interstate commerce.

2. Whether Windmere has alleged and proven the elements of a conspiracy to monopolize violation under §2 of the Sherman Act: (1) the existence of a conspiracy to unlawfully monopolize and (2) an overt act in furtherance of that conspiracy. If such a claim is viable, N.A. Philips and N.V. Philips contend that there is a third requirement that Windmere also must prove a specific intent to monopolize.

## IX. LIST OF TRIAL EXHIBITS

### *Unfair Competition*

The unfair competition exhibit list for N.A. Philips is attached as Schedule A and Windmere's unfair competition exhibit list is attached as Schedule C. Windmere and N.A. Philips reassert their objections to the exhibits listed on the original exhibit lists. N.A. Philips' most recent exhibit list adds many new exhibits. Windmere objects to these new exhibits to the extent that they are not related to the "design patent" issues. N.A. Philips reserves the right to add additional exhibits for purposes of impeachment and/or rebuttal, for demonstrative purposes, by reason of the planned addition of new expert witnesses of defendants, and by reason of the recently-discovered re-introduction of Windmere and/or Ronson rotary three-headed razors for sale in the United States. Exhibits marked with an \* on Windmere's Exhibit List are those which Windmere currently expects to introduce into evidence at trial. Windmere, however, reserves the right to introduce into evidence any other listed exhibits, and reserves the right to introduce additional impeachment or rebuttal exhibits. Both parties reserve the right to introduce exhibits listed on the Exhibit Lists provided as part of the antitrust case.

### *Antitrust*

The antitrust exhibit list for U.S. Philips/N.A. Philips/N.V. Philips is attached as Schedule B. The list of Windmere/Izumi antitrust exhibits is attached as Schedule D.

## X. LIST OF WITNESSES

Witness lists for U.S. Philips/N.A. Philips/N.V. Philips and Windmere are attached as Schedules E and F respectively.

# XI. ESTIMATE OF TRIAL TIME

The parties estimate that the trial will take approximately three to four weeks.

# XII. ATTORNEYS' FEES

The Court may in its discretion award attorneys' fees to the prevailing party in a Section 1125(a) unfair competition proceeding. 15 U.S.C. §1117.

The best estimates of U.S. Philips and N.A. Philips of their recoverable attorneys' fees under these provisions is \$1,200,000 through and including trial, unless the Court also determines that U.S. Philips and N.A. Philips may also recover the attorney's fees spent in defending the counterclaim, which would add \$2,000,000 to the estimate.

The best estimate of Windmere of its recoverable attorney's fees under 15 U.S.C. §1117 is \$1,250,000 through and including the trial. In addition, if defendant Windmere prevails on any antitrust claim, it is entitled to reasonable attorney's fees under 15 U.S.C. §§15 and 72.

[Discrepancy in original document]

counterclaims is presently estimated at \$1.5 million through and including the upcoming trial.

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**APPENDIX H – RESPONSE OF IZUMI TO N.A.  
PHILIPS' INTERROGATORIES, FILED IN THE  
SOUTHERN DISTRICT OF FLORIDA,  
DATED FEBRUARY 12, 1990**

[Caption Omitted in Printing]

**RESPONSE OF IZUMI TO  
N.A. PHILIPS' INTERROGATORIES**

Pursuant to Federal Rules of Civil Procedure 33, Izumi Seimutsu Kogyo Kabushika Kaisha ("Izumi") hereby responds to N.A. Philips' Interrogatories served on February 2, 1990.

**GENERAL OBJECTIONS**

1. Izumi objects to these interrogatories on the grounds that it seeks information beyond that permitted by the Court at the January 31, 1990 Status Hearing. In particular, Izumi objects to these interrogatories to the extent that it seeks information beyond the identity of the person(s) at Izumi most knowledgeable about the facts surrounding the use of the Windmere name on the rotary shavers sold to Dayton-Hudson/Target. Moreover, Izumi is not a party to the unfair competition claim pending before the Court, and thus, has no obligation to provide responses to these interrogatories. Notwithstanding these objections, and without waiver thereof, Izumi is willing to provide responses to these interrogatories (unless otherwise objected to) to the extent that responsive information is reasonably available and not unduly burdensome or oppressive.

2. Izumi objects to the extent that these interrogatories seek information protected by the attorney-client and/or work product privileges.

3. Izumi objects to the definition of defendant because Izumi is not a defendant in the unfair competition claim brought by N.A. Philips.

4. Izumi objects to the definitional section of N.A. Philips' interrogatories on the grounds that the definitions are overly broad, oppressive and burdensome and outside the scope of Fed. R. Civ. P. 34. Notwithstanding these objections, Izumi is willing to provide information (unless otherwise objected to) which is reasonably available.

5. Izumi objects on the grounds that the information sought is irrelevant and is not reasonably calculated to lead to the discovery of admissible evidence, or that its relevance is so tangential that it would be unduly burdensome and oppressive to respond to those interrogatories.

**RESPONSES**

**INTERROGATORY NO. 1**

(a) State when the negotiations between Dayton-Hudson/Target and Izumi culminating in the sale of three-headed rotary electric razors bearing the Windmere brand name by Izumi to Dayton-Hudson/Target began and ended, and identify the person(s) at Izumi most knowledgeable about the facts surrounding the negotiations culminating in the sale;

(b) State the quantity of three-headed rotary electric razors bearing the Windmere brand name sold by Izumi to Dayton-Hudson/Target;

(c) Identify the brand names, other than the Windmere name, that Izumi and Dayton-Hudson/Target considered or evaluated before deciding to market the Izumi-made rotary razors under the Windmere brand name;

(d) Identify the person(s) at Izumi and Windmere who participated in discussions or negotiations regarding use of the Windmere brand name;

(e) State the type, both monetary and non-monetary, and amount, of consideration given by Izumi to Windmere for the right to use the Windmere brand name; and

(f) To the extent not identified in parts (a) through (e) above, identify the person(s) most knowledgeable about the information in each of parts (a) through (e), identify all documents and things that refer or relate to the response to parts (a) through (e), and identify all persons having custody of documents and things that refer to the response to parts (a) through (e).

#### *RESPONSE*

(a) See general objections above. Notwithstanding these objections and without waiver thereof, Izumi states as follows: Despite Philips' continuing efforts to monopolize the relevant markets, and to prevent Izumi from selling its rotary shavers, Izumi first learned of a possible and limited sale of rotary shavers to Target in or about early to mid 1989. The sale to Target culminated in the fall of 1989. The person at Izumi most knowledgeable about the facts surrounding the Target sale is Shunji Izumi.

(b) See general objections above. Notwithstanding these objections and without waiver thereof, Izumi states as follows: 19,992.

(c) See general objections above. Notwithstanding these objections and without waiver thereof, Izumi has no information as to any other brand names which might have been considered.

(d) See general objections above. Notwithstanding these objections and without waiver thereof, Shunji Izumi

is the person at Izumi with most knowledge about the decision to use the Windmere name.

(e) See general objections above. Izumi further objects to the term "non-monetary" consideration on the grounds that it is indefinite, vague and ambiguous. Notwithstanding these objections, and without waiver thereof, and to the extent that Izumi understands the term "non-monetary," Izumi paid no compensation to Windmere.

(f) See general objections above. Izumi further objects on the grounds that the term "refer or relate" is overly broad, vague, indefinite and it would be unduly burdensome to identify all such documents. Nonetheless, Izumi identifies monthly shipping records (which are attached), which show the number of rotary shavers sold to Target (as well as other rotary shavers sold to Windmere). The person having custody of Izumi documents is Katsuya Asawa.

#### *INTERROGATORY NO. 2*

(a) State the quantity of Ronson brand rotary electric razors, by model number, sold by Izumi to Windmere to and through February 2, 1990 to the extent the quantities stated in the pretrial stipulation filed on January 18, 1990 are incomplete.

(b) State the date on which Izumi began selling Ronson brand rotary electric razors in clam packages;

(c) Identify the person(s) responsible for the decision to begin packaging Ronson brand rotary electric razors in clam packaging;

(d) State the quantity of Ronson brand rotary electric razors, by model number, sold by Izumi in clam packaging;

(e) Identify the differences in design, construction, and appearance between the Ronson brand RR-1 and RR-1C/225 rotary electric razors; identify the differences in design, construction, and appearance between the RR-3 and RR3CP/227 rotary electric razor; and

(f) To the extent not identified in parts (a) through (e) above, identify the person(s) most knowledgeable about the information in each of parts (a) through (e), identify all documents and things that refer or relate to the response to parts (a) through (e), and identify all persons having custody of documents and things that refer or relate to the response to parts (a) through (e).

#### RESPONSE

(a) See general objections. Notwithstanding these objections and without waiver thereof, pursuant to Federal Rule Civil Procedure 33(c), see attached monthly shipping records.

(b) See general objections. Notwithstanding these objections and without waiver thereof, Izumi states that despite Philips' continuing efforts to monopolize the relevant markets, and to prevent Izumi from selling its rotary shavers, Izumi first sold Ronson rotary shavers in clam packaging in or about April 1989.

(c) See general objections. Notwithstanding these objections and without waiver thereof, Izumi has no knowledge as to the identity of any such person.

(d) See general objections. Notwithstanding these objections and without waiver thereof, pursuant to Federal Rules Civil Procedure 33(c), see attached documents.

(e) See general objections. Izumi further objects to the terms "design, construction and appearance" on the

grounds that these terms are overly broad, vague and ambiguous. Notwithstanding these objections and without waiver thereof, counsel for N.A. Philips has previously been informed and has acknowledged that there are no differences in design, construction and appearance between the razors identified in this interrogatory.

(f) See general objections above. Izumi further objects on the grounds that the term "refer or relate" is indefinite, vague, overly broad and it would be unduly burdensome to identify all such documents. Nonetheless, documents identified above are responsive to this request. The person at Izumi with most knowledge about the information in this interrogatory is Shunji Izumi. The person having custody of the documents identified herein is Katsuya Asawa.

Dated: February 12, 1990

Respectfully submitted,  
AS TO THE OBJECTIONS

DICKSTEIN, SHAPIRO & MORIN

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## DECLARATION

I declare under penalty of perjury under the laws of the United States of America that the foregoing answers to interrogatories are true and correct to the extent based upon personal knowledge, and are believed to be true and correct to the extent based upon information and belief.

Executed on February 8, 1990

/s/ Shunji Izumi  
Shunji Izumi  
President, Izumi Seimitsu  
Kogyo Kabushika Kaisha

Rotary Shaver monthly shipping record

MODEL MONTH	RR-1	RR-2	RR-3	RR-4	REMARKS
1986 JAN.			9.996		Box 6.8
1986 FEB.			9.996		" "
1986 MAR.			9.996	9.996	" "
1986 APR.					
1986 MAY			9.996	19.992	" "
1986 JUN.					
1986 JUL.					
1986 AUG.					
1986 SEP.					
1986 OCT.					
1986 NOV.					
1986 DEC.					
TOTAL	0	0	39.984	29.988	

Rotary Shaver monthly Shipping record

MODEL MONTH	RR-1	RR-2	RR-3	RR-4	REMARKS
1987 JAN.					
1987 FEB.					
1987 MAR.					
1987 APR.					
1987 MAY					
1987 JUN.					
1987 JUL.					
1987 AUG.					
1987 SEP.	4.996		10.008		ROCKSON G.B.
1987 OCT.					
1987 NOV.					
1987 DEC.	5.106				ROCKSON G.B.
TOTAL	10.002	0	10.008	0	

G.B = GIFT BOX

Rotary Shaver monthly Shipping record

MODEL MONTH	RR-1	RR-2	RR-3	RR-4	REMARKS
1988 JAN.	30				ROCKSON G.B.
1988 FEB.					
1988 MAR.	5.016		5.016		
1988 APR.	5.016				
1988 MAY	10.008				
1988 JUN.					
1988 JUL.					
1988 AUG.					
1988 SEP.					
1988 OCT.					
1988 NOV.			9.006		
1988 DEC.			1.002		
TOTAL	20.070		15.024		

G.B = GIFT BOX

MODEL MONTH	RR-1	RR-2	RR-3	RR-4	REMARKS
1989 JAN.					
1989 FEB.					
1989 MAR.					
1989 APR.	C.P. 5.016			C.P. 5.016	RAISON
1989 MAY				C.P. 5.016	
1989 JUN.			9.8 10.008		
1989 JUL.	C.P. 5.016		C.P. 10.008		
1989 AUG.	C.P. 5.016		15.238	(C.P. 10.008) (C.B. 5.228)	
1989 SEP.		TARGET 9.000	C.B. 3.636		
1989 OCT.		TARGET 10.992	C.P. 5.016		
1989 NOV.					
1989 DEC.					
TOTAL	15.048	19.992	43.896	10.032	

G.B. = GIFT BOX

C.P. = CLAM PACK

[Certificate of Service Omitted in Printing]

# APPENDIX I – REQUEST FOR JUDICIAL NOTICE IN THE SOUTHERN DISTRICT OF FLORIDA

APRIL 4, 1990

[Caption Omitted in Printing]

## REQUEST FOR JUDICIAL NOTICE

Plaintiff, North American Philips Corporation ("NAPC"), hereby requests this Court, pursuant to Rule 201(d), to take judicial notice of the fact that NAPC has filed a claim in the U.S. District Court for the Northern District of Illinois objecting to the sale by Sears, Roebuck & Co. of rotary electric shavers that allegedly embody the NAPC Design Impression, and asking that Court to halt all further such sales. 201(d), Fed. R. Evid., which states:

A court shall take judicial notice if requested by a party and supplied with the necessary information.

This motion is further based on the refusal of the Court to permit inquiry during the evidentiary portion of the trial of the actions taken by N.V. Philips and NAPC to halt the importation by Sears and the sale by Sears of various rotary electric shavers. The plaintiff seeks only to have this Court advise the jury of the following statement:

Ladies and gentlemen of the jury, you have heard evidence in this case pertaining to various rotary electric shavers sold by Sears. You are advised, and must accept as conclusive, that NAPC has filed an action in the U.S. District Court for the Northern District of Illinois objecting to the sale of rotary razors by Sears that allegedly incorporate the NAPC Design Impression, and asking that Court to halt any further sales. That action is still pending.

Such a statement by the Court would not lead to any prejudice or undue emphasis being placed on other litigation.



It would result in no undue prejudice to the defendant, Windmere, which itself, over objection, introduced the evidence pertaining to Sears shavers. Moreover, by this Court advising the jury of the fact as a judicially noticed fact, there will be no prejudicial impact through the use of such information in questioning of witnesses, which could have resulted in the undue emphasis and prejudice considered during the trial by the Court.

This Court has observed that, if anything is clear, Philips has been vigilant in protecting its rights and objecting to the use by others of its design impression.<sup>1</sup> While this may be clear to the Court, there is no evidentiary basis for the jury to so conclude, and the failure to permit inquiry into this area has resulted in extreme prejudice to NAPC. Further, if the Court is correct that the jury believes NAPC has been vigilant, no possible harm can come from the request for judicial notice. If the Court is incorrect as to what is in the minds of the jury, failure to take judicial notice of the action in Sears and give the requested statement to the jury will compound and strengthen the prejudice to NAPC.

Attached hereto is a certified copy of the Supplemental Third Party Defendant Counterclaims, filed in the U.S. District Court for the Northern District of Illinois, attesting to and evidencing the facts as to which this Court is requested to take judicial notice.

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<sup>1</sup> At Volume 7, page 1236, the Court observed:

I think if there is one thing that has become clear in this trial is that Philips has vigorously sought to protect its perceived rights, intellectual property rights here, in a variety of fore and in a variety of locations, including the United States, Japan and elsewhere, but I'm at a loss to see what relevance it is to bring out that Philips sued Izumi in Japan beyond having already permitted that question to be asked of Izumi in cross-examination.

Respectfully submitted,

/s/ Mark T. Banner

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Christopher J. Renk

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Date: April 3, 1990

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CERTIFIED COPY (Rev. 6/85)

UNITED STATES DISTRICT COURT

Northern District of Illinois  
Eastern Division

I, H. Stuart Cunningham, Clerk of the United States District Court for the Northern District of Illinois, do hereby attest and certify that the annexed document is a full, true, and correct copy of the original(s) on file in my office and in my legal custody.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name and affixed the seal of the aforesaid Court at Chicago, Illinois on 3-28-90.

/s/ H. Stuart Cunningham  
CLERK

By/s/Illegible  
Clerk

[SEAL]

[Caption Omitted in Printing]

SUPPLEMENTAL THIRD PARTY  
DEFENDANT COUNTERCLAIMS

FOR ITS COUNTERCLAIMS FOR UNFAIR COMPETITION AGAINST SEARS ROEBUCK & CO., THIRD PARTY DEFENDANT, NORTH AMERICAN PHILIPS CORPORATION, ALLEGES AS FOLLOWS:

1. Third Party Defendant, NORTH AMERICAN PHILIPS CORPORATION ("NAPC"), is a corporation incorporated under the laws of the State of Delaware and has a place of business at 100 East 42nd Street, New York, New York 10017.

2. Defendant, SEARS ROEBUCK & CO. ("Sears"), is a corporation incorporated under the laws of the State of New York and has a regular and established place of business in this district at Sears Tower, Chicago, Illinois 60684.

3. Defendant and Counterplaintiff, IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA ("Izumi"), is a corporation incorporated under the laws of Japan and has a place of business in New York, New York and at 3-1 Moto-machi 2-Chome, Matsumoto City, Nagano Prefecture 390, Japan.

4. The Court has subject matter jurisdiction with respect to the unfair competition counterclaims under 15 U.S.C. §§ 1121 and 1125, and 28 U.S.C. § 1338. Additionally, there is diversity of citizenship and the amount in controversy exceeds, exclusive of interest and costs, the sum of ten thousand dollars. Venue is proper under 28 U.S.C. § 1391.

5. The claims herein arise as a result of recent introduction and sales of two models of men's three-headed

rotary electric shavers, models 86840 and 86841 (the "Sears Rotary Shavers"), which are manufactured in Japan by Izumi and which are then shipped to the United States and are sold in the United States, including in this district, by Sears. The overall exterior appearance or visual design impression of these Sears Rotary Shavers is strikingly similar to the basic visual design impression embodied in the family of NAPC's men's three-headed electric shavers long sold by NAPC. This similarity of design impression enables Sears to trade upon NAPC's deserved reputation with the purchasing public for three-headed rotary shavers of high quality and performance in the marketing of these shavers in the United States. Sears is thereby able to misappropriate to its own benefit NAPC's good will and favorable public acceptance symbolized by the basic design impression embodied in NAPC's family of three-headed rotary shavers.

6. For more than thirty-five years, NAPC has sold high quality, high performance men's electric rotary shavers under the NORELCO trademark to the retail trade in the United States. NAPC has extensively advertised and promoted its NORELCO rotary shavers. Those Norelco shavers have long been the largest selling brand of electric shavers in the United States.

7. NAPC commenced selling rotary shavers in the United States in the late 1940's when it introduced its first one-headed rotary shaver. Beginning in the early 1950's, improved two headed rotary shavers were first sold by NAPC. In the mid 1960's, NAPC introduced improved three-headed rotary shavers. Since then, NAPC has sold far more three-headed rotary shavers than one-headed and two-headed rotary shavers.

8. From time to time since the mid 1960's, NAPC has introduced improved models of its three-headed rotary shavers. Each has had a commercially attractive, overall design. The three-headed rotary shavers of the NAPC design family have shared the same distinctive overall visual impression. The designs embodied in the current NAPC three-headed rotary shaver models are exemplified by United States Design Patent No. D270,487.

9. For many years, Sears has marketed a variety of other personal hair care appliances, including rotary shavers, to the retail trade in the United States under the SEARS mark, and in recent years, under other marks including the NORELCO mark.

*First Counterclaim for Unfair Competition:*

10. NAPC realleges and incorporates herein by reference paragraphs Nos. 1-9 herein.

11. While the specific design impressions of NAPC's three-headed rotary shaver models have varied, one from another, in particular individual design details, most have shared a unique, distinctive, basic visual design impression (the "NAPC Design Impression"). These are readily recognizable by the purchasing public as members of a single family of closely related rotary shavers.

12. NAPC three-headed rotary shavers have long enjoyed a reputation for highest quality and performance with the purchasing public. This deserved reputation is an asset and property right of great value to NAPC. By reason, *inter alia*, of the national advertising and promotion of NAPC three-headed rotary shavers, and the large volume of such rotary shavers sold over the years, the purchasing public has come to associate this reputation for high quality and performance with the NAPC Design



Impression long exclusively embodied in NAPC three-headed rotary shavers.

13. The Sears Rotary Shavers misappropriate the NAPC Design Impression, and consequently trade upon the public's association of the NAPC Design Impression with NAPC's reputation for quality and performance. Such misappropriation has and will improperly facilitate the sale of the Sears Rotary Shavers.

14. NAPC has been and will be damaged, by Sears' and Izumi's copying of the NAPC Design Impression. NAPC's valuable reputation for high quality and performance is and will be wholly at risk in the hands of Sears' and Izumi's quality control and product performance. Upon information and belief, the Sears Rotary Shavers are inferior to NAPC's three-headed shavers in both quality and performance.

15. Unless enjoined, NAPC's damage will be irreparable.

*Second Counterclaim for Unfair Competition:*

16. NAPC realleges and incorporates herein by reference hereto paragraphs Nos. 1-9, 11, 12 and 15 herein.

17. By reason, *inter alia*, of the national advertising and promotion of NAPC three-headed rotary shavers, and the great number of such shavers sold over the years, the purchasing public has come to identify NAPC's three-headed rotary shavers by the NAPC Design Impression and to use the NAPC Design Impression to distinguish NAPC's three-headed rotary shavers from other three-headed rotary shavers. Consequently, the NAPC Design Impression, which is non-functional, has developed a trademark significance and is a valuable property right of NAPC.

18. The embodiment of the NAPC Design Impression in the Sears Rotary Shavers unfairly trades upon the good will and favorable public acceptance and recognition of the NAPC Design Impression. As a result of the advertising and sale of such Sears Rotary Shavers, there is a likelihood that the purchasing public will be confused, deceived or will mistakenly believe that NAPC made the Sears Rotary Shavers for private label sales by Sears, that NAPC sponsors or approves of the Sears Rotary Shavers, and/or that NAPC is in some way associated with the making of the Sears Rotary Shavers.

19. NAPC's rights in its NAPC Design Impression trademark have been and will continue to be damaged by sales of Sears Rotary Shavers which, upon information and belief, are of quality inferior to that of NAPC three-headed rotary shavers and do not perform as well as NAPC three-headed rotary shavers.

20. Sears has intentionally and willfully, and in reckless disregard to NAPC's rights, commenced the sale of the Sears Rotary Shavers knowing that NAPC previously had instituted a lawsuit for unfair competition against Windmere Corporation in the United States District Court for the Southern District of Florida, Civil Action No. 84-2508-Civ-Marcus, because of the sale by Windmere Corporation of rotary shavers which have a virtually identical design impression to that of the Sears Rotary Shavers and which were also made by Izumi.

WHEREFORE, NAPC requests an Order of this Court against Sears as follows:

A. Permanently enjoining Sears, its officers, directors, employees, agents and all those under its direction and control, from manufacturing, selling and advertising to sell the Sears Rotary Shavers;

B. Awarding NAPC its damages, including Sears' profits, resulting from the sale of the Sears Rotary Shavers;

C. Awarding NAPC punitive damages; and

D. Awarding NAPC its reasonable attorneys' fees and costs herein pursuant to 15 U.S.C. §1117; and

E. Ordering the destruction of all Sears Rotary Shavers, and all packaging and advertising materials relating to and/or showing such rotary shavers; and

F. Ordering such other and further relief as the Court may deem just and proper.

/s/ Anne M. Rosenblum  
D. Dennis Allegretti  
John J. Held, Jr.  
Mark T. Banner  
Anne M. Rosenblum  
ALLEGRETTI, NEWITT, WITCOFF  
& McANDREWS, LTD.  
125 South Wacker Drive  
Chicago, Illinois 60606  
(312) 372-2160

[Certificate of Service Omitted in Printing]

**APPENDIX J – SPECIAL INTERROGATORIES  
UNFAIR COMPETITION, FILED IN THE DISTRICT  
COURT FOR THE SOUTHERN DISTRICT OF  
FLORIDA, DATED APRIL 6, 1990**

[Caption Omitted in Printing]

**SPECIAL INTERROGATORIES  
UNFAIR COMPETITION**

*UNFAIR COMPETITION*

1. Do you find that North American Philips has proved, by a preponderance of the evidence, that the trade dress of the Ronson razors so resembles the trade dress of Norelco as to be likely to cause purchasers or potential purchasers of electric razors to believe that the Ronson razors were made by, approved by, sponsored by, or were in some way associated with Norelco?

YES \_\_\_\_\_ NO ✓

2. Do you find that North American Philips has proved, by a preponderance of the evidence that the Norelco trade dress is "primarily non-functional"?

YES \_\_\_\_\_ NO ✓

3. Has North American Philips established by a preponderance of the evidence secondary meaning in the primarily non-functional features of Norelco trade dress used for its rotary shavers?

YES \_\_\_\_\_ NO ✓

4. If you answered "YES" to questions 1, 2 and 3, then state the amount of money, if any, to which North American Philips is entitled for unfair competition.

\$ \_\_\_\_\_

SO SAY WE ALL.

DATE: April 6, 1990 \_\_\_\_\_

/s/ Illegible  
FOREPERSON

**APPENDIX K – SPECIAL INTERROGATORIES  
ANTITRUST, FILED IN THE DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF FLORIDA,  
DATED APRIL 6, 1990**

[Caption Omitted in Printing]

**SPECIAL INTERROGATORIES  
ANTITRUST**

**INTERROGATORY NO. 1: MONOPOLIZATION**

(a) Do you find from a preponderance of the evidence that, during the relevant time period, rotary shavers constituted a relevant product market?

YES ☒ NO ☐

If you have answered (a) above "YES," then answer (b); otherwise, do not answer (b), (c), or (d).

(b) Do you find from a preponderance of the evidence that, during the relevant time period, the counterdefendants N.A. Philips and N.V. Philips possessed monopoly power in the rotary shaver market?

YES ☒ NO ☐

If you have answered (b) above "YES," then answer (c); otherwise, do not answer (c) or (d).

(c) Do you find from a preponderance of the evidence that the counterdefendants willfully acquired or maintained monopoly power through one or more of the following acts of restrictive or exclusionary conduct:

(i) Reduced or established prices on the 1320 and 1615 model shavers which caused these products to be sold below average total cost?

YES ☒ NO ☐

(ii) Do you find from a preponderance of the evidence each of the following: (1) there are substantial barriers to entry into the rotary shaver market; (2) that Philips had 90% or more of the rotary shaver market; (3) that N.A. and N.V. Philips drastically slashed its prices in response to Windmere; (4) that the effect of that price slashing was to eliminate Windmere; (5) that the price of these products was materially raised thereafter; and (6) that the acts of Philips were willful.

YES ☒ NO ☐

If you have answered "YES" to either (c)(i) or (c)(ii) above, then answer (d); otherwise, do not answer (d).

(d) Do you find from preponderance of the evidence that such violation by the counterdefendants caused anti-trust injury to the business or property of Windmere?

YES ☒ NO ☐

**INTERROGATORY NO. 2: ATTEMPT  
TO MONOPOLIZE**

(a) Do you find from a preponderance of the evidence that either rotary razors or rotary razors and foil razors sold below \$40 constitute a relevant market?

NEITHER ☒ ROTARY RAZORS ☐  
ROTARY AND FOIL RAZORS UNDER \$40 ☐

If you answered either "ROTARY RAZORS" or "ROTARY AND FOIL RAZORS UNDER \$40" proceed to question (b). If you answered "NEITHER" proceed to INTERROGATORY NO. 3.

(b) Do you find from a preponderance of the evidence, that during the relevant time period, counterdefendants N.A. Philips and N.V. Philips attempted to monopolize a relevant market in violation of Section 2 of the Sherman



Act by pricing models 1320 and 1615 below average total cost as defined?

YES \_\_\_\_\_ NO \_\_\_\_\_

If you have answered (b) above "YES," then answer (c); otherwise, do not answer (c).

(c) Do you find from a preponderance of the evidence that the counterdefendants had the specific intent to acquire monopoly power?

YES \_\_\_\_\_ NO \_\_\_\_\_

If you have answered (c) above "YES," then answer (d); otherwise, do not answer (d).

(d) Was there a dangerous probability that the counterdefendants would succeed in their attempt to acquire monopoly power?

YES \_\_\_\_\_ NO \_\_\_\_\_

If you have answered (d) above "YES," then answer (e); otherwise, do not answer (e).

(e) Do you find from a preponderance of the evidence that such a violation by the counterdefendants caused antitrust injury to the business or property of Windmere?

YES \_\_\_\_\_ NO \_\_\_\_\_

### *INTERROGATORY NO. 3: CONSPIRACY TO MONOPOLIZE*

(a) Do you find from a preponderance of the evidence that during the relevant time period, the counterdefendants N.A. Philips and N.V. Philips were separate economic entities that (1) combined or conspired to monopolize their relevant market (2) took an overt act in furtherance of that conspiracy and (3) had the specific intent

to monopolize in violation of Section 2 of the Sherman Act?

YES ✓ NO \_\_\_\_\_

If you have answered (a) above "YES," then answer (b); otherwise, do not answer (b).

(b) Do you find from a preponderance of the evidence that such violation caused antitrust injury to the business or property of Windmere?

YES ✓ NO \_\_\_\_\_

If you have answered "YES" to one or more of INTERROGATORIES NOS. 1(d), 2(e) or 3(b), then answer the following INTERROGATORY; otherwise, do not answer INTERROGATORY NO. 4.

### *INTERROGATORY NO. 4*

What sum of money, if paid now in cash, do you find from a preponderance of the evidence would fairly and reasonably compensate Windmere for the damage to its business or property which you have found was caused by the conduct of the counterdefendants in violation of the antitrust laws.

ANSWER IN DOLLARS AND CENTS, IF ANY: \_\_\_\_\_  
29,881,419

SO SAY WE ALL

/s/ Illegible  
FOREPERSON

Date: April 6, 1990

APPENDIX L – ORDER OF THE DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF FLORIDA,  
ENTERED SEPTEMBER 3, 1991

[Caption Omitted in Printing]

ORDER

THIS CAUSE has come before the Court upon (1) Counterdefendants', U.S. Philips Corporation ("Philips"), North American Philips Corporation ("NAPC") and N.V. Philips Gloeilampenfabrieken ("N.V. Philips") Motion for Judgment Notwithstanding the Verdict or a New Trial on Counterplaintiff Windmere Corporation's ("Windmere") Antitrust Counterclaims, and (2) NAPC's Motion for Judgment Notwithstanding the Verdict on the Unfair Competition Count, and (3) NAPC's Motion for a New Trial on the Unfair Competition Count. After reviewing the lengthy pleadings submitted by both parties and taking oral arguments at the August 20, 1990 conference, for the reasons set forth below Plaintiffs/Counterdefendants' motions are DENIED.

In October 1984, Philips filed suit in the Southern District of Florida against Windmere and Izumi Seimitsu Kogyo Kabushiki Kaisha, a Japanese Corporation, for infringement of Philips' electric shaver patent and against Windmere for unfair competition. The essence of the Complaint was that Windmere's Ronson rotary razors violated Plaintiff's patents on Norelco rotaries, and that Windmere created confusion among consumers by marketing the Ronson razor to appear as if it were nearly identical to the Norelco rotaries. Windmere in turn filed a Counterclaim alleging that Philips has monopolized and attempted to monopolize the electric rotary shaver market, in violation of Section 2 of the Sherman Act, 15 U.S.C. 2 (1982), and that Philips and N.V. Philips (the Dutch corporation) conspired to restrain trade in

that market, in violation of Section 1 of that Act, 15 U.S.C. 1 (1982). As stated by the Federal Circuit, however, it appears that Windmere has abandoned its Section 1 claim. *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695, 697 (Fed. Cir. 1988).

Both the antitrust and patent issues were tried to a jury. At the close of Windmere's antitrust case, this Court granted Philips' motion for directed verdict on those issues holding that Windmere had not adduced sufficient evidence to support a jury verdict in its favor as to its claim under Section 2 of the Sherman Act, 15 U.S.C. 2 (1982). We then submitted the patent and unfair competition issues to the jury, which ruled for Philips on the patent claim and for Windmere on the unfair competition claim. Windmere appealed our Order granting Philips' motion for directed verdict, and on November 14, 1988, the Federal Circuit reversed and remanded the cause for a new trial on the antitrust issues concluding that there existed sufficient evidence in the record in order to properly submit Windmere's antitrust counterclaim to the jury. *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695 (Fed. Cir. 1988).

In accordance with the Federal Circuit opinion, a second jury trial was held on Windmere's Antitrust counterclaim in the spring of 1990, at which time almost three dozen witnesses testified over a four week time period. At its conclusion, the jury deliberated, found in favor of counterplaintiff Windmere, and awarded Windmere \$29,887,419.00 in damages. The jury also found in favor of Windmere as to Philips' Unfair Competition claim. Counterdefendant now seeks a Judgment Notwithstanding the Jury's Verdict ("JNOV"), or in the alternative a New Trial on these same Antitrust claims. In addition, Philips requests a new trial and a JNOV on its unfair competition claim.

## I. ANTITRUST COUNTERCLAIM

### a. Standard for JNOV

In considering a motion for a JNOV, as in a motion for a directed verdict, the trial court "is not permitted to weigh the evidence," *Rabun v. Kimberly Clark Corp.*, 678 F.2d 1053, 1057 (11th Cir. 1982), but rather all evidence must be viewed in a light and with all reasonable inferences most favorable to the non-moving party. *Watts v. Great Atlantic and Pacific Tea Co.*, 842 F.2d 307, 309 (11th Cir. 1988). In light of this standard, Windmere, as the non-moving party, is entitled to a review of the record evidence in a light most favorable to it. Philips' motion could be granted only if, considering the facts in this light, no more than a scintilla of evidence favors Windmere. *Id.* The motion must be denied so long as "substantial evidence" exists which favors the non-moving party; "substantial evidence" exists when reasonable men "might reach different conclusions." *Zaklama v. Mt. Sinai Medical Center*, 842 F.2d 291, 295 (11th Cir. 1988) (emphasis added); *Watts*, 842 F.2d at 309, quoting *Boeing Co. v. Shipman*, 411 F.2d 365, 374-75 (5th Cir. 1988). In our view, the record demonstrates that "substantial evidence" was presented in support of the jury's Sherman Act Section 2 verdict in favor of Windmere.

### b. Standard for a New Trial

When ruling on a motion for a new trial, a trial judge must determine "if in his opinion, 'the verdict is against the clear weight of the evidence . . . or will result in a miscarriage of justice, even though there may be substantial evidence which would prevent the direction of a verdict.'" *United States v. Bucon Construction Co.*,

430 F.2d 420, 423 (5th Cir. 1970), quoting *Aetna Casualty & Surety Co. v. Yeatts*, 122 F.2d 350, 352-53 (4th Cir. 1941). A new trial is appropriate only if the great weight of the evidence favors the moving party — merely the greater weight is not sufficient. *Watts*, 842 F.2d at 310. See also *Conway v. Chemical Leaman Tank Lines, Inc.*, 610 F.2d 360, 363 (5th Cir. 1980). Furthermore, in this Circuit great deference is given to the jury's determination. A refusal to allow a new trial will generally be reviewed under an abuse of discretion standard. *Hewitt v. B.F. Goodrich Co.*, 732 F.2d 1554, 1556 (11th Cir. 1984). Indeed, the Eleventh Circuit has observed that granting a new trial is a drastic remedy and should only be used sparingly. *Id.*

In the instant case, the jury expressly found after a lengthy trial that Windmere prevailed on its Sherman Act claims. After extensively reviewing the record, including the transcripts and relevant documents, we believe that the jury's decision was based on evidence properly received and resulted in no manifest injustice. Therefore, we must DENY Philips' Motion for a New Trial on the Antitrust counterclaims.

### c. Analysis

After reviewing the pleadings, and as clearly delineated by the moving party at the August 20 conference, Philips seeks a JNOV or a new trial based primarily on four main grounds: first, Philips claims that there was no proof that Windmere suffered damages amounting to approximately \$30 million dollars; second, Philips asserts that Windmere failed to prove antitrust liability on Philips's behalf because the jury instructions on predatory pricing were improper; third, Philips contends that Windmere failed to prove that Philips' pricing policy was below total cost



because Mr. Bloom's methodology was erroneous; and finally, Philips argues that a new trial is required because the jury's answers to the special interrogatories submitted are irreconcilably inconsistent.

### 1. Damages

As to Philips' initial argument regarding damages, Philips claims that Windmere's proof does not support the large amount of damages awarded — \$29,887,419.00. Specifically, Philips argues that the jury's award is erroneous because the jury relied on a deficient document submitted by Windmere in calculating the amount and because Windmere failed to prove that the damages were "caused" by Philips' predatory pricing of its 1320 and 1615 razor models. Philips first states that in "awarding damages, the jury simply added up the figures presented in [exhibit-model] 1019 for 1984 through 1991." Philips' Memorandum at 79. Philips contends that exhibit 1019 is "riddled with unsupportable speculations, unfounded assumptions and conclusions which bear no relationship to logic or fact . . . ." Philips' Memorandum at 79. Second, Counterdefendant maintains that Windmere failed to prove that its damages through 1991 were "caused" by the prices of the Philips' 1320 and 1615 models. Philips reminds us that Windmere has the burden of showing that its injury was in fact caused by Defendant's unlawful acts rather than other factors such as lawful competition, mismanagement or changed economic conditions. *Foremost-McKesson, Inc. v. Instrumentation Laboratory, Inc.*, 527 F.2d 417, 419 (5th Cir. 1976). We are not persuaded.

Exhibit 1019, admitted at trial, is the damage model illustrating the projected sales figures that Windmere claimed it would have achieved but for Philips' illegal

conduct. In order to explain the significance of this model, Windmere presented Dr. Ozanne as its expert witness on damages. Dr. Ozanne's expertise was not questioned at trial and is not the basis for this motion. In fact, his examination at trial was an extensive one — approximately four hours. Instead, Philips' principal argument seems to be that Dr. Ozanne's exhibit 1019 model was erroneously premised on Mr. Friedson's, the Chief Executive Officer of Windmere, "oral projections" created after the lawsuit was filed. Mr. Friedson is the president of a company that has gone into many product lines and the testimony established that he had extensive experience in making business projections such as the one at issue. The jury quite apparently credited his extensive experience in making such projections and decided to calculate damages in accordance with his and Dr. Ozanne's expert testimony and guidance. Mr. Friedson was cross-examined extensively at trial. While it is true that we did not admit at trial the hard copy of Mr. Friedson's projections, Mr. Friedson's business projections, which he tendered to the Board of Directors of Windmere, were admitted into evidence. The following colloquy occurred at trial:

Q. And did you later on prepare that document which in effect reviewed what you had given to the board?

A. Yes, sir.

THE COURT: When did he make the statement to the board?

A. In January, February of '84.

THE COURT: The truth of the matter is, again, it is a tempest in a teapot. You can establish what it is that he had to say by asking him what it is he said. If he doesn't remember, you can show him the

document and ask to what extent it refreshes his recollection. You can even have him go down to an easel and recount in writing on the easel his recollection of what he said.

Trial transcript at 1401. As stated at the August 20 conference, Philips is not objecting to the introduction of 1019 into evidence but rather to the jury's "acceptance" of the model because as Philips puts it, Friedson's projections are meritless, and because model 1019 is based on assumptions made by Ozanne that were allegedly never proven. August 20 conference transcript at 69-71.

We first point out that the Supreme Court has long recognized that in antitrust cases, "the vagaries of the marketplace usually deny us sure knowledge of what plaintiff's situation would have been in the absence of defendant's antitrust violation." *J. Truett Payne Co. v. Chrysler Motors Corp.*, 451 U.S. 557, 567 (1981). It is also established that an antitrust plaintiff's damages can be approximated since it is unfair to penalize the victim of an antitrust violation because it cannot establish its damages with the degree of mathematical certainty demanded by the antitrust wrongdoer. *Malcolm v. Marathon Oil Co.*, 642 F.2d 845 (5th Cir. 1981) (citations and quotations omitted). The Fifth Circuit also held in *Malcolm* that the damage figure may contain imperfections, but this does not render the estimate unsound. *Id.* at 858. In light of this standard, we are mindful that Dr. Ozanne incorporated record evidence on the business projections of Windmere in the shaver business into his 1019 model, he tested the veracity of Windmere's projections on other ancillary product lines and factored those findings into his projections. Dr. Ozanne went into great detail in describing to the jury how he analyzed Mr. Friedson's previous projections and

how these projections became reliable or viable over time<sup>1</sup>. We believe that his methodology is supported by the record and that his testimony together with Friedson's account provided sufficient evidence for the jury to reach their decision on damages.

In addition, and as stated above, both Dr. Ozanne and Mr. Friedson were cross-examined extensively and vigorously by extremely able counsel. For example, Philips' cross of Dr. Ozanne suggested that the projections were not credible, comparing the experts' conclusions with a "Schick" projection made by Windmere. Mr. Friedson in turn testified that the projection used in cross was not at all relevant because that projection involved "parts" and no rotary shavers. Inasmuch as Dr. Ozanne and Mr. Friedson are unquestionably experts in their business-related fields, both experts provided extensive testimony supporting the credibility of model 1019, and both were thoroughly cross-examined at trial, we are hard pressed to find that the jury was not given adequate and proper proof on the issue of damages. As stated by Philips itself at oral argument, the objection is not the introduction of the model into evidence — there is no motion to

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<sup>1</sup>We also note in passing that the Eleventh Circuit has held that "an expert witness's opinion testimony does not have to be based upon admissible evidence. Such opinions, however, must be based upon 'facts or data . . . of a type reasonably relied upon by experts in the particular field . . .'" *American Key Corp. v. Cole Nat'l Corp.*, 762 F.2d 1569, 1580 (11th Cir. 1985) (citations omitted). Surely, business projections formulated by the Chief Executive Officer of a company would be facts from which an expert such as Ozanne would reasonably rely on in providing his testimony, especially where that officer has prepared many such projections in his official position over an extended time frame. In any event, Philips did not argue that Mr. Friedson's type of report is not the type relied upon by antitrust damage experts.



strike exhibit-model 1019. Rather, the objection goes to the jury's "acceptance" of the model given Philips' belief that Mr. Friedson's projections and Dr. Ozanne's assumptions were meritless and unsupportable. That argument, however, really involves the "weight" that the jury accorded to the model in their calculation of damages, and as clearly established in this Circuit, our role is not to "weigh" the evidence — that determination lies solely in the discretion of the jury. *Rabun*, 678 F.2d at 1057; *Watts*, 842 F.2d at 307. We also remind Philips that, as in any jury trial, the issue of the evidence's weight could have gone in any number of directions. On the record, the jury could have credited Philips' experts; plainly, they could have also rejected all experts.

In sum, the jury members reviewed the evidence, which was part of the record, credited Windmere's experts and documents, and reached their conclusions accordingly. We are not prepared to disturb the jury's determination based on Philips' disagreement as to Windmere's experts' projections or because we might not have awarded the same damages.

As to Philips' argument that there was no evidence from which the jury could have found that Windmere's damages were "caused" by Philips' pricing of its 1320 and 1615 models, we remind Philips again that this is a determination placed solely in the hands of the jury. There is no question that Windmere presented evidence which showed that Philips dropped their prices essentially thirty (3) to thirty-five (35) percent, and that these prices were raised as soon as Windmere left the market<sup>2</sup>.

<sup>2</sup> Notably, after reviewing the evidence presented at the first trial by Windmere, the Federal Circuit stated:

There was evidence from which the jury could have concluded:

[footnote continued]

The jury was given sufficient evidence from which it could find that Philips' acts caused Windmere antitrust damage and that Philips' conduct gave Windmere a basis to institute an antitrust cause of action. In fact, the Federal Circuit, in reversing our directed verdict against Windmere and having looked at Windmere's evidence the first time around, explicitly found that "Windmere presented sufficient evidence of predatory pricing," *Windmere*, 861 F.2d at 703, and that "[i]f the jury had credited Windmere's evidence and rejected Philips', it could have returned a verdict for Windmere" on the antitrust counterclaim. *Id.* at 704. Obviously, that is what occurred in the second trial, and therefore, we must DENY Philips' motion for JNOV or for a New Trial on the issue of damages.

1. That entry barriers to the rotary electric shaver market are substantial, if not high — the need to have a well-known brand with wide consumer acceptance, the limited number of brands that satisfy this requirement, and the substantial advertising expenditures required to attain a foothold in the market.

2. That Philips introduced its lower-priced older models only in response to Windmere's entry into the market with its cheaper Ronson rotary electric shaver.

3. That Philips cut the price of its shavers in an endeavor to eliminate Windmere from the market. . . . That this purpose of Philips was further shown by the evidence that, when Windmere withdrew from the rotary shaver market, Philips promptly discontinued the sale of its lower-priced old model.

*Windmere*, 861 F.2d at 703. The evidence presented at the second trial was no less compelling than the first time. Accordingly, we are hard pressed to give merit to Philips' argument that there was a lack of evidence indicating that Philips' tactics caused harm to Windmere.



## 2. Jury Instructions

Philips' second main argument in support of its motion for a new trial is that the deliberative process was "polluted" because the Court's two (2) jury instructions on predatory pricing and monopolization were improper, confusing, and inconsistent. Again, we deny Philips' motion on this ground and reject its arguments. After an extensive review of the controlling case law on predatory pricing and a thorough charging conference with the parties, we decided to provide the jury with two balanced liability instructions reflecting the law stemming from the Eleventh Circuit decision in *McGahee v. Northern Propane Gas Co.*, 858 F.2d 1487 (11th Cir. 1988), and the Federal Circuit decision on this particular case, *Windmere*, 861 F.2d at 704. We initially recognized that the Supreme Court recently declined to "consider the proper definition of predatory pricing." See *Atlantic Richfield Co. v. USA Petroleum Co.*, 110 S.Ct. 1884, 1892 n.10 (1990). Therefore, we looked to the applicable law in the Eleventh Circuit and noted that on October 27, 1988, this Circuit held that "the test for predatory pricing must consider subjective evidence and should use *average total cost* as the cost above which no inference of predatory intent can be found." *McGahee*, 858 F.2d at 1496 (emphasis added). Thereafter, on November 14, 1988, the Federal Circuit reviewed the case, focused on Windmere's Sherman Act claims, and held:

To be sure, Philips introduced evidence designed to show that its actions were legitimate competitive responses prompted by the entry of Windmere into the market. The evaluation of all the evidence bearing on the nature of Philips' actions and the inferences to be drawn from the evidence, was for the jury to determine. If the jury had credited Wind-

mere's evidence and rejected Philips', it could have returned a verdict for Windmere. Evidence that a firm holding 90 percent of a market that has substantial entry barriers drastically slashes its prices in response to the competition of a new entrant, for the purpose and with the effect of eliminating that entrant, is sufficient to show monopolization, in violation of section 2 of the Sherman Act.

*Windmere*, 861 F.2d at 703-04.

Therefore, in accordance with these binding instructions, we first cautioned the jury with an instruction headed "Predatory Pricing Distinguished From 'Competition'" and clearly told the jury that Philips had the right to engage in ordinary competitive behavior, which was to be contrasted with restrictive or exclusionary conduct to maintain control of the market. Next, we instructed the jury on predatory pricing defining that phrase in terms of sales below *average total cost*, the controlling standard as enunciated by the Eleventh Circuit in *McGahee*. Then, we instructed the jury that they must *first* consider that issue (i.e. predatory pricing defined as pricing below average total cost) *before even considering the second alternative theory* — the Federal Circuit law on "monopolization." As an alternate theory, and one requested by Windmere, we instructed the jury, in accordance with the Federal Court's unambiguous mandate in the *Windmere* decision and in order to preserve the law stemming from that case, that one can show "monopolization" with evidence indicating that a firm holding 90 percent of a market that has substantial entry barriers, drastically slashed its prices in response to the competition of the new entrant, for the purpose and with the effect of eliminating that entrant.

Philips contends that these instructions were improper because we should have used "average variable cost" instead of the "average total cost" test mandated in *McGahee* and because the jury's deliberative process was "polluted" by the second alternative Federal Circuit instruction since it was inconsistent with the *McGahee* predatory pricing instruction. We disagree. First, as to the propriety of the first *McGahee* predatory pricing instruction and as to the average total cost test, there can be no question that an appellate court's decision is the law of the case at the district court level. We are undoubtedly bound by the current law in the Eleventh Circuit and we formulated the instruction accordingly. See *Leggett v. Badger*, 798 F.2d 1387, 1389 (11th Cir. 1986); *Dorsey v. Continental Casualty Co.*, 730 F.2d 675, 678 (11th Cir. 1984). Also, both parties agreed at trial to the use of the *McGahee* predatory pricing instruction and to the average total cost test. Philips' arguments as to the *McGahee* instruction are without merit.

As to the alternative theory — the Federal Circuit "monopolization" instruction — Philips conceded at the August 20 conference that, under controlling case law, a jury "can . . . deal with alternative instructions." August 20, 1990 conference transcript at 38-39. Philips' main argument, however, is that these instructions were so inconsistent as to confuse the jury and prejudice their judgment. We point out, however, that as specifically instructed, the issue of predatory pricing had to be decided by the jury *before* ever reaching the alternative theory. Indeed, the form of the interrogatories which the jury had to answer point by point required the consideration of these issues in the order directed by this Court. Philips suggests nevertheless that there was some confusion about the jury's task and that the jury actu-

ally did something or adopted a procedure totally inconsistent with this Court's direction. We reject this suggestion as it only amounts to an unsupported allegation. We will not reverse the jury verdict simply because Philips suspects that the jury did not follow the Court's instruction or was not able to understand its task. By the time the jury reached the interrogatory setting forth the alternative theory as mandated by the Federal Circuit, it had already found that Philips used below cost predatory pricing in eliminating Windmere's competition in violation of Section 2 of the Sherman Act. This discussion on the second alternative instruction appears to be moot since the jury found that Philips's conduct violated the Sherman Act under *both* instructions.

In addition, we disagree that the two instructions were inconsistent so as to constitute reversible error. Although Philips does not agree with the appellate court, the alternative theory simply reflects the law of this case on the issue of "monopolization" decided by the Federal Circuit as it reviewed this precise case. In fact, the Federal Circuit found nothing inconsistent in the notion that a cost case or predatory pricing case existed, along with a theory based on the maintenance of monopoly power and the preservation of a 90% share by willfully eliminating Windmere with sustained 40% price cuts forcing Windmere' to exit.<sup>3</sup> Any fair reading of the Federal Circuit's

<sup>3</sup>In fact, the Supreme Court has considered the matter by emphasizing the use of exclusionary practices with a bad state of mind for the purpose of maintaining a monopoly and *eliminating all competition*, irrespective of the objective question of whether the practice did or did not produce a profit. In *American Tobacco Co. v. United States*, 328 U.S. 781 (1946), the Supreme Court stated that the pricing practices "maintained the power to exclude competitors" — that the defendants "have the intent and purpose

[footnote continued]



*Windmere* opinion compels the conclusion that the Circuit reviewed, accepted, and remanded the cause to this Court on both theories. The Federal Circuit referred to both theories and found that both stated claims under Section 2 of the Sherman Act. Again, we are bound by the law as set forth by the Circuit in *McGahee* (on the average total cost test) and in *Windmere* by the Federal Circuit (on the alternative monopolization theory). In essence, Philips disagrees with the law of this case, but this is not the appropriate forum to "review" Circuit rulings. We have done no more than apply the binding law of this case through the alternative instructions. We have followed the appropriate legal standards in so doing. Philips' assumption that the jury was "polluted" by being presented with both alternative theories does not merit reversing the jury's verdict.

### 3. The Average Total Cost Test

Philips' third principal argument is that *Windmere* failed to prove that Philips' price was below total cost because the methodology utilized by Mr. Bloom was erroneous. Specifically, Philips maintains that *Windmere*'s proof on the *McGahee* average total cost "predatory pricing" test was insufficient. At the August 20 conference, Philips argued that the testimony of Mr. Bloom, *Windmere*'s expert accountant, was the only evidence *Windmere* presented at trial on the issue of whether Philips priced the 1320 and 1615 below average total cost. Philips asserts that Bloom's testimony, including his use of exhibit 916 (Norelco's razor Division

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to exercise that power." Also, in *United States v. Grinnell Corp.*, 384 U.S. 563 (1966), the practices condemned, including "containment pricing", were used according to the Supreme Court "consciously" to maintain monopoly power.

income statement), was replete with unreasonable assumptions, hypothetical numbers, and baseless methods of allocating costs. Philips also takes issue with Mr. Bloom's methodology in "ignoring" the *actual* costs of the 1320 and 1615 models and relying instead on assumptions and projections of advertising, freight, and handling costs. Philips stated in its brief and at argument that Bloom simply reviewed Norelco's razor division income statement (exhibit 916), took a percentage of each of the costs that were listed including advertising, warranty, and bad debts, and allocated those costs on a per unit basis to the two shavers that were at issue. Philips argues that according to the Supreme Court's ruling in *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574 (1986), such predatory pricing evidence must be unambiguous and evaluated with care. Because Philips believes that Bloom's methodology was improper and mainly because there was no evidence that such costs were in fact incurred, Philips asks this Court to reverse the jury verdict on the ground that there was insufficient and improper evidence for the jury to determine that Philips engaged in predatory pricing.

We reject Philips' argument. The Federal Circuit, in reviewing this case, has already addressed and decided this precise issue in *Windmere*'s favor. The Court of Appeals in *Windmere* held that the advertising issue was one that specifically covered different theories of allocation, and that it was a question for the jury as to how the advertising expenses should be allocated. Indeed, the Federal Circuit stated that whether it is on a per unit basis, which was one of the methods used by Mr. Bloom, or on a revenue basis was a matter for the jury to decide. The Court went even further, holding that this also applied to the allocation of operating expenses,



cost of batteries, freight and handling, and suggesting that Windmere could use "projections" rather than actual costs. As an illustration of these various points, we recall the rulings made by the Federal Circuit in *Windmere*:

[T]he determination whether Philips sold below . . . cost required resolution of . . . whether Windmere's projections for certain items of Philips' cost — batteries, freight and handling — were sufficient to establish those costs. The district court held that on both of these elements of its case, Windmere failed to present sufficient evidence to create disputed factual issues for the jury. We disagree.

In ruling that Windmere had not presented substantial evidence that Philips' advertising expenses were variable rather than fixed costs to create a jury question on that issue, the district court relied on the testimony of Philips' economist expert, Mr. Kamerschen, that the Norelco advertising was a fixed cost, and stated that "Windmere failed to bring forth any information to the contrary on the cross-examination of this witness." It was for the jury, however, and not for the court, to determine the credibility of this witness and the weight to be given his testimony. The jury was not required to accept his expert testimony, even if it was uncontradicted. See *Quock Ting v. United States*, 140 U.S. 417, 420, 11 S.Ct. 733, 734, 35 L.Ed. 501 (1891); see also *Archer v. Commissioner*, 227 F.2d 270, 273 (5th Cir. 1955).

To counter Mr. Kamerschen's opinion, Windmere relied on Norelco's 1984 income statements, "which listed advertising in a category entitled variable expenses." The court rejected this evidence as insufficient to create an issue for the jury . . . As was the case with Mr. Kamerschen's expert testimony, however, this was evidence that the jury was entitled to consider . . .

[W]e conclude that, in determining the amount of Philips' advertising expenses that are variable costs, the proper treatment of the approximately \$6.6 million Philips received from its Dutch parent in 1985 was an issue for the jury to decide.

The question whether Philips' advertising expenses should be allocated to the 1615 and 1320 models on a per unit basis or on the basis of revenue received also was a matter for the jury and not for the court to decide. We reach that same conclusion with respect to the propriety of Windmere's use of 1985 projections, rather than Philips' actual operating costs (which apparently were not available to Windmere), to determine Philips' cost of batteries, freight and handling.

*Windmere*, 861 F.2d at 704-05.

In light of the foregoing, there is no question that the issues which Philips have raised regarding the allocation of costs have been squarely decided by the Federal Circuit. The Federal Circuit found that Philips' objections as to Bloom's use of the per unit basis of allocation and methodology comprised of reasonable projections rather than actual costs were proper methods of determining predatory pricing, and that in any event, the weight to be given to these procedures rests solely in the jury's hands. Philips was given the opportunity to introduce its own experts and argue to the jury that Mr. Bloom's methodology was "unreasonable." Accordingly, we must DENY Philips' Motion for a JNOV or a New Trial based on these grounds.

#### 4. Inconsistent Responses to Interrogatories

Philips' final main assertion in supporting of its motion for a New Trial or JNOV is that the jury's responses to

special interrogatories Nos. 1 and 2 are so hopelessly irreconcilable that a new trial is in order on all the Sherman Act Section 2 issues. In the instant case, the jury rendered two interrogatory responses on the issue of relevant market:

Special Interrogatory No. 1(a), which related to Windmere's monopolization claim, asked the jury:

Do you find from a preponderance of the evidence that during the relevant time period, rotary shavers constituted a relevant product market?

The jury answered this question "yes."

Special Interrogatory No. 2(a), which related to Windmere's attempt to monopolize claim, asked the jury:

Do you find from a preponderance of the evidence that either rotary razors or rotary razors and foil razors sold below \$40 constitute a relevant market?

The jury responded, "Neither."

In light of these answers, Philips cites to *Burger King Corp. v. Mason*, 710 F.2d 1480, 1489 (11th Cir. 1983) and states that if a jury's responses to special interrogatories are so inconsistent that they cannot be reconciled fairly, a new trial must be ordered. We reject Philips' contention for two reasons. First, we are not convinced that the responses are "irreconcilably" inconsistent so as to require a new trial under the controlling case law. Second, and foremost, Philips has waived its argument on this issue under binding precedent because it did not challenge the consistency of the verdicts before the jury was excused.

As to the inconsistency argument, the Eleventh Circuit held in *Mason* that "a trial judge must make all reasonable efforts to reconcile an inconsistent verdict and if there is a view of the case which makes the jury's an-

wers consistent, the court must adopt that view and enter judgment accordingly." *Mason*, 710 F.2d at 1489. The Court further held that "the test employed in determining whether a conflict in the verdict can be reconciled is whether the answers may fairly be said to represent a logical and probable decision on the relevant issues as submitted . . . ." *Id.* (quotation omitted). Here, we believe that there is a view of the case which makes the jury's answers to interrogatories Nos. 1 and 2 consistent.

Windmere proceeded on two theories. The first was that rotary shavers constitute a separate market distinct from the foil market. The second position which Windmere took was that there was also evidence of a market "under \$40." The exhibits and statistics in evidence demonstrated, for example, that in the under \$40 market, Philips originally had a smaller percentage of that business, but by driving Windmere out of "that market," Philips obtained 70% of the total "under \$40 market" by 1989. This issue was presented in terms of Windmere's alternative theory that, passing the monopolization case, Philips attempted to monopolize that "under \$40 market." The jury could, based on the evidence presented, have decided the case for Windmere or Philips. There was substantial evidence of record which could have been used to support either position. The fact that the jury determined that there was no "rotary market under \$40" and yet there was a full rotary market is a finding which is hardly "irreconcilably" inconsistent with the record, and the jury could easily have reached that conclusion.

In fact, the jury was instructed regarding the product line. We stated that the "alternative" Windmere market was "all" electric shavers sold at under \$40. The jury instruction to that effect read:



In this case, Windmere claims the relevant product market is rotary electric razors. In the alternative, Windmere has claimed that the relevant product market consists of all electric shavers sold under \$40.00. The Counterdefendants, North American Philips and N.V. Philips, on the other hand, claim that the relevant product market is broader than rotary electric shavers and that it includes at least all electric shavers and maybe all shaving devices, both wet and dry.

We believe that the second interrogatory answered by the jury can be deemed as "consistent" with the first especially when read in context with the instruction. The special interrogatory is susceptible to a rational instruction that the market referred to — whether it was rotary shavers or "all" electric shavers — had to consist of just those shavers "under \$40." The instruction and interrogatory admit to that circumstance and, therefore, we find that there is not such an inconsistency which would require the reversal of the jury verdict. In any event, we need not even answer this question today since Philips has waived its argument on the special interrogatories.

Despite what the law might be in other Circuits, the Eleventh Circuit has held that a party waives its argument that the jury verdict was inconsistent by not raising it before the jury is dismissed under Fed.R.Civ.P. 49(a). See *Itel Capital Corp. v. Cups Coal Co., Inc.*, 707 F.2d 1253, 1261 (11th Cir. 1983) ("appellees waived their objection to alleged inconsistencies in the jury's answers to the special interrogatories by failing to object at the time the verdict was rendered" (citations omitted)) and *Golub v. J.W. Gant & Associates*, 863 F.2d 1516, 1521 n.4 (11th Cir. 1989). In this case, Philips' first and only mention of the inconsistency issue was raised in its

memorandum in support of a New Trial or JNOV. Philips' Memorandum at 98. Philips did not even make reference to this argument at the August 20 conference. Although Philips is correct in pointing out that other circuit courts of appeals have held that there is no waiver under Rule 49(a) for failing to object before the jury is discharged, the Eleventh Circuit has taken the opposite position that a waiver occurs if no objection is made at the time the verdict is rendered. As the Eleventh Circuit stated in its most recent treatment of the issue:

Even if construed as a challenge to the verdict's inconsistency, however, Gant's [defendant's] appeal is waived. In this Circuit, all challenges to the consistency of special verdicts must be raised before the jury is excused (citations omitted)).

*Golub*, 863 F.2d at 1521 n.4. In light of this statement of the law and because Philips did not challenge the interrogatories until after the jury was excused, we must find that Philips has waived any such arguments.

In sum, and in view of the foregoing discussion, we do not find that Philips has made any persuasive argument mandating that we grant a JNOV in its favor or vacate the jury's verdict and hold a *third* trial on Windmere's antitrust counterclaim. The main arguments discussed above and the additional assertions made by Philips in its pleadings and at the August 20 conference fall short of satisfying the standard required to grant such drastic relief. Accordingly, we DENY Philips' Motion for JNOV or a New Trial on Windmere's antitrust counterclaim.

## II. UNFAIR COMPETITION CLAIM

At the outset, we note that in both the Motion for JNOV and the Motion for a New Trial on the Unfair



Competition Count, NAPC challenges a number of issues, *all* of which were fully raised, adjudicated, addressed, briefed, argued, and decided by this Court at trial. We observe that NAPC has not presented any *new* arguments on these issues which would now require this Court to either grant a JNOV or a new trial on the Unfair Competition claim. Therefore, NAPC's motions are DENIED. Because the majority of the issues raised by these motions have been previously addressed and resolved by this Court for reasons detailed at length at trial and in the interest of judicial economy, we only briefly address the main points raised by NAPC below.

*a. Motion for JNOV*

As in the first trial, the second jury found against Plaintiffs by special interrogatories on *all* elements of their unfair competition claim. Plaintiffs nevertheless assert that "there is no evidence from which a reasonable, fair-minded person could reach the verdict for the jury." NAPC's Memorandum in support of its Motion for JNOV at 10. NAPC specifically argues that there was no substantial evidence to support any of the jury's findings relating to (1) functionality of the Norelco design; (2) likelihood of confusion between the Norelco and Ronson shavers; and (3) secondary meaning of the Norelco trade dress. Since NAPC must prove all three of these elements to be entitled to relief in an unfair competition claim, *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966 (11th Cir. 1983), the jury verdict must be upheld if there was evidence to support the jury's findings on any one of the elements. As to the element of functionality, we recall that if a design is "functional," the public is free to copy it with impunity. *John H. Harland Co.*, 711 F.2d at 982. A design need not be the only possible design or

even the single best design to be functional; it is functional if it is the best or one of the few superior designs. *See, e.g., In re Bose Corp.*, 772 F.2d 866, 872 (Fed. Cir. 1985); *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1341 (C.C.P.A. 1982). We believe, contrary to NAPC's portrayal, that Windmere presented substantial evidence to show that the Norelco design look was primarily functional and enough evidence to at least allow the jury to decide the issue. Among the evidence presented at trial was the following:

(1) Mr. Arato, Windmere's functionality expert, testified at great length that a "telephone hook" shape was the best way to design a shaver. (Trial Tr. Vol. 6, pp. 871-84);

(2) Mr. Arato testified that the three heads should be arranged in a triangle for the most efficient shave. (Trial Tr. Vol. 6, pp. 878-79);

(3) Mr. Arato compared the "telephone hook" shavers to the old Norelco "boat" shavers and found the "telephone hook" shavers to be far superior. (Trial Tr. Vol. 6, pp. 877-81);

(4) Sears and Remington, the only other companies in the United States to sell rotary shavers (other than Windmere) also use a "telephone hook" design. In fact, Sears sold a "telephone hook" shaver in 1973, even before Norelco began selling its "telephone hook" shavers. (Trial Tr. Vol. 2, pp. 114-15; Vol. 5, p. 771; Plaintiff's Ex. 30; Defendant's Exs. 58, 356);

(5) the jury was shown that even the wet razors use the "telephone hook" design (Trial Tr. Vol. 6, pp. 873-75);

(6) Windmere asked Izumi to make a shaver with a slimmed-down handle for functional reasons — to make

the shaver easier to hold. (Trial Tr. Vol. 5, pp 700-04, 774-75);

(7) the United States Patent and Trademark Office refused to register Philips' triangular faceplate for functional reasons. (Trial Tr. Vol. 7, pp. 1194-98); and

(8) Finally, Norelco's own advertising continuously touted the functional advantages of its "telephone hook" design. (Defendant's Ex. 329, 371). See, e.g., *In re Bose*, 772 F.2d at 871-72. For example, Philips' own advertising stated:

Not only designed to fit your hand, but also cleverly bent to reach your face so you don't have to do a lot of bending and reaching yourself.

Surely, there was more than just a "scintilla of evidence" in the record from which the jury could find that the design at issue was "functional." Accordingly, NAPC is not entitled to a JNOV on the unfair competition claim. In viewing the evidence in the light most favorable to Windmere on a Motion for JNOV, *Watts*, 842 F.2d at 309, "substantial evidence" existed in favor of Windmere and accordingly, NAPC's motion must be and is hereby DENIED. In view of this conclusion, we need not detail and discuss the evidence with regard to the "likelihood of confusion" and "secondary meaning" elements, but we do note that after reviewing such evidence, we are satisfied that substantial evidence existed to support the jury's findings as to these factors too. As a result, NAPC's Motion for a JNOV on the Unfair Competition Claim is DENIED.

#### *b. Motion for a New Trial*

In its brief, NAPC acknowledges the heavy burden it bears of proving that we erred and that the error was

"inconsistent with substantial justice" as to require a *third* trial. See Fed.R.Civ.P. 61. As highlighted at the August 20 conference and as stated in its briefs, NAPC requests a new trial based primarily on two main grounds. First, NAPC argues that we erroneously placed the functionality burden of proof on NAPC instead of on Windmere. Second, Plaintiff asserts that the Izumi design patents should not have been admitted into evidence. For the reasons we have articulated at great length in the record at both trials, we reject NAPC's arguments and therefore DENY its Motion for a New Trial on the Unfair Competition Count.

Once again, NAPC argues that the burden of proving functionality should rest with Windmere and that our placement of the burden upon NAPC necessitates a new trial. The unquestionable fact that the Eleventh Circuit places the burden of proof of functionality upon the Plaintiff has been briefed and ruled upon by this Court. (Trial Tr. at 18-3382 to 3383). To reiterate, we note that the Eleventh Circuit has consistently stated that the "plaintiff," and not the defendant, carries the burden of proving that the features of the model are non-functional. See, e.g., *Brooks Shoe Mfg. Co. v. Suave Shoe Corp.*, 716 F.2d 854 (11th Cir. 1983). The Court in *Brooks* explicitly held:

In order to prevail on a trade dress infringement claim under 43(a) of the Lanham Act, a *plaintiff must prove* that its trade dress has acquired secondary meaning, *that the features of its trade dress are primarily non-functional*, and that the defendant's product has trade dress which is confusingly similar to its own trade dress.

*Brooks*, 716 F.2d at 857 (emphasis added), citing to *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966



(11th Cir. 1983). Although the Eleventh Circuit recognized in *Harland*, 711 F.2d at 982 n.26, that "there is some confusion in the courts regarding whether the plaintiff has the burden of proving nonfunctionality," and did not squarely decide the question at that time, the Circuit a few years later explicitly stated:

The Eleventh Circuit . . . required plaintiff to establish that the features of the trade dress are "primarily non-functional."

*CPG Products Corp. v. Pegasus Luggage, Inc.*, 776 F.2d 1007, 1011 (Fed. Cir. 1985).

In light of these explicit rulings from the Eleventh Circuit, we are hard pressed to merit NAPC's argument that we incorrectly placed such a burden on Plaintiff. Despite the fact that Plaintiff cites to law review articles and cases from other Circuits questioning such a procedure, the cases in our Circuit clearly support this decision in the instant case. There are no cases in the Eleventh Circuit holding that such a burden must be placed on the defendant.

Notwithstanding the foregoing discussion, we note in passing that regardless of where the burden should be placed, a new trial is certainly not warranted. As noted above, the evidence at trial substantially showed that the NAPC trade dress was functional, and we find that the result would not have been different even if the burden had been placed on Windmere. Therefore, for all the reasons stated, we must and hereby DENY NAPC's Motion for a New Trial based on the burden of functionality argument.

As NAPC's second major argument in support of its motion, it asserts that we should not have admitted the two Izumi design patents into evidence. NAPC again

states that "[these patents] allowed the . . . prejudicial and legally erroneous and irrelevant argument to be made to the jury in closing that the United States Government, in granting design patents on those shavers, had concluded that the Izumi shavers could not be copies of the Norelco design family Lanham Act." NAPC's Memorandum in support of Motion for New Trial at 27. We once again note that no intellectual property issue was briefed and argued more exhaustively at trial than this one, and NAPC has presented nothing new here to disturb our prior ruling.

We admitted the patents into evidence because NAPC unambiguously *stipulated* to them in the Pretrial Stipulation. The arguments raised by NAPC attacking the stipulation, including its possible prejudicial effect, were considered thoroughly by this Court at trial and we summarized:

Finally, with regard to the Gambrell matter, I thought a great deal about that, and I know of no way to say that Philips ought not to be bound by the stipulations that it entered regarding — the two stipulations, 11 and 12 [the Izumi design patents] — and I will permit that to come in.

\* \* \*

I think there was a square, clean stipulation of fact as to that, and if I didn't permit you to put that in, I think the stipulated fact has no meaning here, and there was no exception or qualification taken to that.

\* \* \*

The provisions of the law are clear. Our Local Rule is clear.



And [local rule] 14(b)(5) provides that the pretrial stipulation shall contain a concise statement of stipulated facts which will require no proof at trial, with reservations, if any. In the pretrial stip, the facts regarding the Izumi patents were stipulated to without reservation of any kind.

(Trial Tr. 13-2351 to 2352; see also Trial Tr. 7-1067 to 1072).

NAPC argues that notwithstanding the stipulation, it should be excused from such stipulation because it is necessary to "prevent manifest injustice." NAPC's Memorandum in support of Motion for New Trial at 30. NAPC then cites to *Noel Shows, Inc. v. United States*, 721 F.2d 327 (11th Cir. 1983), in order to illustrate that a district court has the discretion to deny or allow the admission of a stipulated fact into evidence at trial. However, NAPC has presented no evidence to establish "manifest injustice."

NAPC's sole argument is that manifest injustice is established because "the balancing of the harm under Rule 403 clearly favored exclusion of this irrelevant material." NAPC's Memorandum in support of Motion for New Trial at 31. Nothing that NAPC has presented to this Court indicates that these design patents could not have been admitted and that we did not have the discretion to enforce the stipulation and to allow it into evidence. We reasoned that both parties had negotiated, agreed to the stipulation in good faith, and that such an exclusion would prejudice Windmere because it had relied on them in good faith and built some of its case around them. We further note in retrospect that no "manifest injustice" was ever shown regarding these designs during trial. In fact, in order to assure that no injustice would occur, a cautionary instruction was

drafted, agreed to by both parties, and submitted to the jury by this Court. In sum, NAPC was bound by its negotiated stipulation, and appropriate steps were taken to prevent any "manifest injustice" to occur. Moreover, even if we had excluded the evidence under Rule 403 without the stipulation, we believe it would hardly constitute "manifest injustice" to bind NAPC to its word. Because we find no "manifest injustice" stemming from the admission of the stipulations which would require a new trial, NAPC's Motion is DENIED.

In addition to the two main arguments discussed above, NAPC again takes issue with some of the jury instructions and with some of our evidentiary rulings at trial. As NAPC itself acknowledges in its brief, however, these issues were extensively discussed and briefed during the course of the trial and no new points have been raised at this time to alter our earlier decisions. See, e.g., NAPC's Memorandum in support of Motion for New Trial at 21. In sum and in view of the foregoing discussion, it is hereby

ORDERED AND ADJUDGED that (1) Counter-defendants' Motion for JNOV or a New Trial on Windmere's Antitrust Counterclaim, (2) NAPC's Motion for JNOV on the Unfair Competition Count, and (3) NAPC's Motion for a New Trial on the Unfair Competition Count are DENIED. DONE AND ORDERED at Miami, Florida, this 3rd day of September, 1991.

/s/ Stanley Marcus  
STANLEY MARCUS  
UNITED STATES DISTRICT JUDGE  
SOUTHERN DISTRICT OF FLORIDA

cc: Counsel of record

**APPENDIX M – CERTIFICATE OF INTEREST  
FILED IN THE UNITED STATES COURT OF  
APPEALS FOR THE FEDERAL CIRCUIT,  
DATED FEBRUARY 17, 1992**

**CERTIFICATE OF INTEREST**

Pursuant to Rule 47.4 of this Court, counsel for the appellee, Windmere Corporation, certifies the following:

1. The full name of every party or amicus represented by Counsel is: Windmere Corporation
2. The name of the real party in interest represented by Counsel is: Windmere Corporation
3. The parent companies, subsidiaries (except wholly-owned subsidiaries), and affiliates, including those that have issued shares to the public, of appellee, Windmere Corporation are listed below:

Windmere Corporation  
Catalina Lighting, Inc.

4. The names of all law firms and the partners or associates that appeared for the parties in the trial court are:

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The names of all law firms and the partners or associates that are expected to appear in this Court for the parties now represented by me are:

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/s/ R. Mark McCareins  
R. Mark McCareins  
WINSTON & STRAWN  
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(312) 558-5600  
*Counsel for Appellee*  
Windmere Corporation

Dated: Chicago, Illinois  
February 17, 1992

---

**APPENDIX N – SETTLEMENT AGREEMENT  
BETWEEN NORTH AMERICAN PHILIPS  
CORPORATION AND WINDMERE  
DATED MAY 6, 1992**

**SETTLEMENT AGREEMENT**

This Settlement Agreement is made this 6th day of May, 1992 by and between North American Philips Corporation ("NAPC") and Windmere Corporation ("Windmere").

WHEREAS, in October 1984 NAPC sued Windmere in the United States District Court for the Southern District of Florida (the "Action") for patent infringement and unfair competition and Windmere brought counterclaims against NAPC under, among other statutes, the federal antitrust laws; and

WHEREAS, on April 6, 1990 a judgment was entered against NAPC on Windmere's antitrust counterclaim in the amount of \$89,644,257 plus attorneys fees, interest and costs, and on May 4, 1990 a judgment was entered on NAPC's unfair competition claims (collectively the "Judgment"); and

WHEREAS, certain post trial motions filed by NAPC were denied by the District Court in an order dated September 3, 1991; and

WHEREAS, on September 30, 1991 NAPC filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit which appeal is now pending; and

WHEREAS, NAPC and Windmere wish to compromise and settle all claims and counterclaims asserted in the Action as well as all claims which NAPC and Windmere may have against each other as of the date of this Agreement;

NOW THEREFORE, IT IS AGREED, by and between NAPC and Windmere that all claims which each may have against the other shall be settled and compromised on the following terms and conditions:

1. At 10:00 a.m. on May 11, 1992 (the "Closing Date"), at the offices of Sullivan & Cromwell, 250 Park Avenue, New York, N.Y. 10017 (the "Closing"), Windmere shall deliver to NAPC an executed motion to vacate the Judgment, in the form attached hereto as Exhibit A.

2. At the Closing, Windmere shall deliver to NAPC an executed General Release.

3. At the Closing, NAPC shall deliver to Windmere an executed General Release.

4. On the Closing Date, NAPC shall pay to Windmere the sum of \$57,000,000 by wire transfer in immediately available funds to Windmere's account at the Bank of New York, One Wall Street, New York, N.Y.; ABA #02100018, Account #8033297689, Attention: Agency Function Administration; Reference: Windmere.

5. The transactions described in paragraphs 1-4 shall be executed simultaneously and no one of them shall be deemed completed until all are completed. The completion of the transactions described paragraphs 1-4 shall constitute the complete performance by each party to this Settlement Agreement of their mutual obligations set forth in paragraphs 1-4.

6. NAPC and Windmere further agree that Windmere shall cooperate, to the fullest extent of its ability, with NAPC in filing the motion referred to above and in taking such other steps as may be necessary to vacate the judgment and the proceedings in the District Court relevant to the Judgment. It is the intention of all parties to this Settlement Agreement that the Judgment, the



opinion and the jury interrogatories on NAPC's unfair competition claim and Windmere's antitrust claim will be of no force and effect and shall have no precedential or other value, including, without limitation, any effect under the doctrines of collateral estoppel or res judicata; provided, however and without limiting the foregoing, Windmere's rights to the consideration described in paragraphs 3 and 4 above shall in no way be affected by any failure, for whatever reason, to realize the intention of the parties described in this paragraph 6.

7. This agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which shall be a single Agreement.

8. NAPC and Windmere shall consult with one another prior to the release of any public statements concerning the Settlement.

WINDMERE CORPORATION

by /s/ David Friedson  
President

NORTH AMERICAN PHILIPS  
CORPORATION

by /s/ Samuel J. Rozel  
Samuel J. Rozel  
Senior Vice President and Secretary

STATE OF FLORIDA) ss.:  
COUNTY OF DADE )

On May 6, 1992 before me personally came David Friedson to me know, who by me duly sworn did depose and say that deponent is the President of Windmere Corporation, that deponent executed the above document by order of the Board of the corporation.

/s/ Marsha E. Wisecup  
Marsha E. Wisecup  
Notary Public  
[SEAL]

STATE OF NEW YORK ) ss.:  
COUNTY OF NEW YORK)

On May 6, 1991 before me personally came Samuel J. Rozel to me known, who by me duly sworn did depose and say that deponent is the Sr. V.P. & Sec. of North American Philips Corporation, that deponent executed the above document by the order of the Executive Management Committee of the Corporation.

/s/ Loretta L. Nassau  
Loretta L. Nassau  
Notary Public  
[SEAL]

APPENDIX O – LETTER TO F. GINDHART, CLERK  
OF THE UNITED STATES COURT OF APPEALS FOR  
THE FEDERAL CIRCUIT, FROM W. ANDROLIA,  
DATED MAY 11, 1992

KODA & ANDROLIA

1800 CENTURY PARK EAST, SUITE 519  
LOS ANGELES, CALIFORNIA 90067

WILLIAM L. ANDROLIA  
H. HENRY KODA  
ALEX CHARTOVE, OF COUNSEL  
WASHINGTON OFFICE  
2000 M STREET, N.W.  
WASHINGTON, D.C. 20036

TELEPHONE  
(310) 277-1931  
FAX  
(310) 277-4118

May 11, 1992

Francis Gindhart  
Clerk of the Court  
United States Court of Appeals  
for the Federal Circuit  
717 Madison Place, N.W.  
Washington, D.C.

Re: U.S. Philips Corporation, North American  
Philips Corporation and N.V. Philips  
Gloeilampenfabrieken v. Windmere Corporation and  
Izumi Seimitsu Kogyo Kabushiki Kaisha  
Appeal No. 92-1020

Dear Mr. Gindhart:

I am a counsel for Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"), a party to the above-captioned litigation while it was pending in the United States District Court for the Southern District of Florida. It has just come to my attention that plaintiffs-appellants U.S. Philips Corporation, North American Philips Corporation, and N.V. Philips Gloeilampenfabrieken (collectively

"Philips") and defendant-appellee Windmere Corporation ("Windmere") have filed or are about to file a Joint Motion to Dismiss this Appeal and to Vacate the Judgments Below. The purpose of this letter is to inform the Court that Izumi wishes to oppose this motion to the extent that the motion seeks to vacate the judgments, and to obtain an appropriate time schedule to file the necessary opposition.

The proceedings in the District Court involved several claims and counterclaims. U.S. Philips Corporation filed a patent infringement count against both Windmere and Izumi; and North American Philips Corporation filed unfair competition claims against Windmere alone, although pursuant to an indemnification agreement, Izumi provided the defense to that claim. Finally, Windmere filed antitrust and related counterclaims against all three Philips companies. This appeal involves only the unfair competition claims and the antitrust counterclaims, claims to which Izumi was not a named party in the District Court. I understand that Izumi is listed as an appellee on the cover sheets of the briefs filed by all the parties to this appeal; nonetheless, because it was not a named party to the specific claims appealed, Izumi is concerned that it may not be considered a party on appeal and would like to be heard in opposition to the Joint Motion because its rights may be adversely affected if the judgment below were vacated.

At the trial in the District Court, among other things, the jury found for Windmere on North American Philips' unfair competition claim, finding that North American Philips' asserted trade dress was functional and hence, not protectable, that there was no secondary meaning, and no likelihood of confusion. As stated above, Izumi was responsible for the defense of the unfair competition

claim (including settlement), pursuant to an indemnification agreement with Windmere. Since the judgment below was in favor of Windmere, the benefits of that favorable judgment should flow to Izumi, the party which provided and paid for the defense. Accordingly, Izumi has a direct interest that the judgment not be vacated and wishes to bring these facts and others to the attention of the Court in opposition to the Joint Motion.

On behalf of Izumi, I would appreciate guidance from the Court on the proper steps to take to preserve Izumi's ability to oppose the Motion to Vacate the judgment below. In particular, Izumi requests that no action be taken on the Joint Motion until it has had an opportunity to oppose the motion and that a schedule be set for the filing of that opposition. Thank you for your consideration.

Very truly yours,

/s/ William L. Androlia  
William L. Androlia

Counsel for Izumi Seimitsu Kogyo  
Kabushiki Kaisha

cc: William E. Willis, Esq.  
Sheldon Karon, Esq.  
Gary R. Jones, Esq.  
Gary M. Hoffman, Esq.  
The Honorable Robert H. Bork  
Edward L. Foote, Esq.

---

**APPENDIX P – ORDER OF THE UNITED STATES  
COURT OF APPEALS FOR THE FEDERAL CIRCUIT,  
ENTERED MAY 18, 1992**

[Caption Omitted in Printing]

**ORDER**

The parties have filed a Joint Motion to Dismiss the Appeal as Moot and Vacate the Judgments Below. Izumi Seimitsu Kogyo Kabushiki Kaisha has filed a letter requesting the opportunity to oppose the Joint Motion.

**ACCORDINGLY, IT IS ORDERED THAT:**

1. Izumi shall file an appropriate motion within ten days of the date hereof, accompanied by argument including an explanation of Izumi's standing to bring such motion.
2. The parties to the Joint Motion shall file any response within ten days thereafter.
3. The argument of the appeal in No. 92-1020, scheduled for June 3, 1992, is removed from the calendar.

**FOR THE COURT**

May 18, 1992  
Date

/s/Francis X. Gindhart  
Clerk

92-1020

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**APPENDIX Q – SUPPLEMENTAL DECLARATION OF  
WILLIAM L. ANDROLIA (WITH TWO ATTACHMENTS)**

[Caption Omitted in Printing]

**SUPPLEMENTAL DECLARATION OF  
WILLIAM L. ANDROLIA**

I, William L. Androlia, declare as follows:

1. I have read the joint reply of Philips and Windmere to Izumi's opposition to the motion to vacate. In particular, I have read the statement contained on page five that "Izumi's counsel was aware that Philips was seeking a vacatur well before Philips entered into the settlement with Windmere, but did nothing to object to the vacatur prior to consummation of the settlement." That statement is categorically false.

2. On March 30, 1992, I received a letter from Edward L. Foote, Esq. who represented both Windmere and Izumi in litigation against Philips. In that letter, Mr. Foote stated "we have agreed on a specific number on which to base the settlement of [the Miami] case." He further stated "there are other negotiations of that settlement involving what to do with the outstanding judgment etc. that will also proceed." Mr. Foote further advised me that Philips' and Windmere's ongoing settlement discussions involved terms and conditions potentially adverse to Izumi's interest, thereby precluding him from participating further in those negotiations on Windmere's behalf. He informed me that further negotiations "will be negotiated by other attorneys who will proceed at the direction of [Windmere's President] David Friedson." (Attachment 1) Thus, it is my understanding that after March 30, 1992, settlement discussions were conducted

on Windmere's behalf by attorneys directed exclusively by Windmere and who reported exclusively to Windmere.

3. Immediately upon receiving the March 30 letter from Mr. Foote, I wrote to Mr. David Friedson, President of Windmere, and informed him: "We trust that in your decision as to what to do with the judgment, you will not agree to anything which would harm Izumi and/or its business in the United States or which might be a breach of the indemnity between Windmere and Izumi." (Attachment 1 [sic])

4. One day later, on April 2, 1992, I spoke with Mr. Friedson by telephone. Mr. Friedson informed me that the possibility of vacatur was among the terms of settlement being discussed by Philips and Windmere. In response, I told him that Izumi would oppose any effort by Philips and/or Windmere to seek vacatur of the Florida court's judgment on the antitrust and unfair competition claims. I asked Mr. Friedson to communicate Izumi's objection to vacate directly to Philips. I learned nothing further about the status of Philips' and Windmere's settlement negotiations until Friday, May 8, at which time I was informed by Charles Saber, Esq. (one of the attorneys for Izumi in the Chicago litigation, and one of the attorneys for Windmere and Izumi in the Florida action) that Philips and Windmere had entered into a settlement agreement. I was not told the terms of the settlement agreement at that time.

5. I did not learn that Philips and Windmere had agreed to seek vacatur of the Florida court judgment until May 11, 1992, when I was so informed by Charles Saber, Esq. I did not see a copy of the Philips/Windmere settlement agreement, or their joint motion to vacate until Tuesday, May 12, 1992, the day after that motion was filed with

168a

the United States Court of Appeals for the Federal Circuit. I, therefore, immediately retained the firm of Finnegan, Henderson et al. to oppose the joint motion to vacate on Izumi's behalf.

I declare under penalty of perjury that all of the foregoing is true and correct pursuant to 28 U.S.C. §1746.

May 28, 1992  
Date

/s/William L. Androlia  
William L. Androlia

169a

WINSTON & STRAWN  
35 West Wacker Drive  
Chicago, Illinois 60601-9703  
(312) 558-5800

William L. Androlia  
Koda & Androlia  
1880 Century Park East  
Suite 519  
Los Angeles, California 90067

Facsimile (312) 558-5700

March 30, 1992

Re: *Windmere/Izumi/Philips*

Dear Mr. Androlia:

The Windmere/Philips case has now been briefed and we are awaiting the next event, which will be oral argument. I do not know when that will occur. In the meantime, negotiations with Sullivan & Cromwell have proceeded and we have agreed on a specific number on which to base a settlement of that case.

There are other negotiations of that settlement involving what to do with the outstanding judgment, etc. that will also proceed. I have advised David Friedson and Windmere and Sullivan & Cromwell that I cannot negotiate those terms involving a settlement because there is a possibility that such negotiations might put me in conflict with Izumi's interest.

This letter simply brings you up to date to the extent that I can disclose the matter to you and advise you that further negotiations regarding settlement involving matters other than the amount will be negotiated by other attorneys who will proceed at the direction of David Friedson. I will not participate in those negotiations.

ELF:pn  
cc: David M. Friedson

Very truly yours,  
/s/ Edward L. Foote  
Edward L. Foote

FACSIMILE

KODA AND ANDROLIA

PHONE: (213) 277-1391 FAX: (213) 277-4118

TO: Mr. David Friedson, President, Windmere

FROM: William L. Androlia of Koda and Androlia

DATE: April 1, 1992

SUBJECT: Philips/Windmere Settlement

Dear David:

We received this date a letter from Mr. Foote indicating that you are again in settlement discussions with Philips over the Miami case. In Mr. Foote's letter he states "... we have agreed on a specific number on which to base a settlement of that case" and "There are other negotiations of that settlement involving what to do with the outstanding judgment".

From Mr. Foote's statements we assume that Philips and Windmere have agreed upon a sum of money for which both parties would end the Miami litigation and the appeal and that Philips and Windmere are now discussing what to do with the Judgment, if anything.

We trust that in your decision as to what to do with the Judgment, you will not agree to anything which would harm Izumi and/or its business in the United States or which might be a breach of the indemnity between Windmere and Izumi.

We are sorry were not able to talk to you first on this matter before sending this Fax, but Ed's letter did not arrive until the afternoon mail and Windmere was already closed. We will try to call you on April 2, 1992.

Sincerely

/s/ William L. Androlia  
William L. Androlia

cc: Mr. Shunji Izumi

**APPENDIX R – ORDER OF THE DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF FLORIDA,  
ENTERED DECEMBER 31, 1992**

[Caption Omitted in Printing]

**ORDER**

THIS COURT, having entered final judgments in this matter dated (1) April 30, 1986 (on U.S. Philips Corporation's claim of patent infringement), (2) April 6, 1990 (on Windmere Corporation's counterclaims under §2 of the Sherman Act), and (3) May 4, 1990 (on North American Philips Corporation's Lanham Act claim) (the latter two which are collectively referred to herein as the "1990 Judgments"); and the 1990 Judgments having been appealed to the United States Court of Appeals for the Federal Circuit; and the Federal Circuit having vacated the 1990 Judgments, and this Court, having received the mandate of the Federal Circuit, issued on October 7, 1992, instructing that the above-captioned action be dismissed with prejudice; this Court hereby enters an order dismissing with prejudice and without costs all those claims subject to the 1990 Judgments, including all verdicts and orders regarding such claims.

DONE AND ORDERED in Chambers at Miami, Florida this 31 day of December, 1992.

/s/ Stanley Marcus  
Stanley Marcus  
District Court  
Southern District of Florida



APPENDIX S - PLAINTIFF'S TRIAL EXHIBIT 548  
FILED IN THE SOUTHERN DISTRICT OF FLORIDA

PLAINTIFF'S  
EXHIBIT  
548

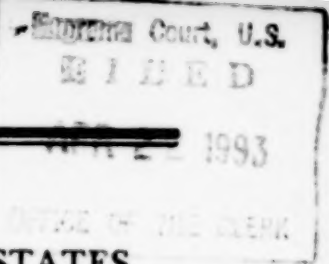
1988  
650TX  
\$32.24  
\$42.50

1986  
650TX  
\$30.30  
\$38.20

1320  
\$28.50  
Retail 36.67

Norelco  
Price

Norelco 27.42 27.64 27.25  
Price  
adjusted  
for inflation



IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

PETITIONER'S BRIEF ON THE MERITS

*Of Counsel:*

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*Counsel for Petitioner  
Izumi Seimitsu Kogyo  
Kabushiki Kaisha*

April 22, 1993

(i)

### QUESTIONS PRESENTED

1. Whether the court of appeals should have permitted Petitioner to oppose Respondents' motion to vacate the district court judgment.
2. Whether the court of appeals erred in vacating the district court judgment when the parties to the appeal settled.



(ii)

### STATEMENT PURSUANT TO RULE 29.1

As set forth in the Petition for Certiorari, Izumi Seimitsu Kogyo Kabushiki Kaisha has no parent or subsidiary companies.

(iii)

### TABLE OF CONTENTS

	<u>Page</u>
QUESTIONS PRESENTED . . . . .	i
STATEMENT PURSUANT TO RULE 29.1 . . . . .	ii
TABLE OF AUTHORITIES . . . . .	iv
OPINIONS BELOW . . . . .	1
JURISDICTION . . . . .	2
STATEMENT OF THE CASE . . . . .	2
1. The District Court Action . . . . .	2
2. The Philips/Windmere Settlement . . . . .	4
3. The Illinois District Court Litigation . . . . .	4
4. Izumi's Attempt to Oppose Vacatur . . . . .	5
5. The Basis of the Federal Circuit's Decision . . . . .	7
6. The Effect of the Federal Circuit's Decision . . . . .	9
SUMMARY OF THE ARGUMENT . . . . .	9
ARGUMENT . . . . .	11
I. Izumi Has the Right to Intervene . . . . .	11
A. Intervention Is Warranted Under the Present Circumstances . . . . .	11
B. Izumi's Motion to Intervene Was Timely . . . . .	15
II. The Federal Circuit Committed Reversible Error in Granting the Motion to Vacate . . . . .	16
A. The Federal Circuit's Practice Is to Routinely Vacate the District Court Judgment Whenever Settlement Moots the Action on Appeal . . . . .	17
B. The Federal Circuit's Practice of Vacatur on Settlement Is Based on an Erroneous Inter- pretation of Supreme Court Cases . . . . .	19
1. <i>Munsingwear</i> Does Not Involve Settlement . . . . .	20
2. <i>Karcher</i> Confirms the Distinction Between <i>Munsingwear</i> "Happenstance" and Actions Within the Control of the Parties . . . . .	21
3. <i>Duke Power</i> Does Not Mandate Vacatur Where Settlement Is Involved . . . . .	22

(iv)

	<u>Page</u>
4. The Summary Order in City Gas Does Not Provide Authority for the Federal Circuit's Automatic Vacatur Rule. . . . .	23
C. The Federal Circuit Is In Error in Granting Vacatur Merely Because the Parties Settle and Request It . . . . .	24
D. Under the Facts and Circumstances Here, The Philips/Windmere Motion to Vacate Could Not Reasonably Have Been Granted . . . . .	27
1. Philips Should Not Be Able to Use Vacatur to Avoid the Preclusive Effects of the Florida Judgment . . . . .	27
2. The Federal Circuit's Order Burdens Not Only Izumi and Sears, But the Judicial System As Well. . . . .	31
3. Vacatur Conflicts With the Interests of Justice in the Present Case. . . . .	33
CONCLUSION . . . . .	36

## TABLE OF AUTHORITIES

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<i>Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation</i> , 402 U.S. 313 (1971). . . . .	28
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(v)

	<u>Page</u>
Cases, continued:	
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Note, <i>Avoiding Issue Preclusion by Settlement Condi- tioned Upon the Vacatur of Entered Judgments</i> , 96 Yale L.J. 860 (1987) . . . . .	33

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No. 92-1123

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IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

---

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

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ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

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PETITIONER'S BRIEF ON THE MERITS

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OPINIONS BELOW

The opinion of the court of appeals (see Petitioners Appendix, hereinafter "Pet.", A1-A6) is reported at 971 F.2d 728. The judgments of the District Court for the Southern District of Florida (Pet. A7-A8; Joint Appendix, hereinafter "J.A." 126a) are unreported.

## JURISDICTION

The judgment of the court of appeals was entered on July 31, 1992. This Court has jurisdiction under 28 U.S.C. § 1254. The petition for a writ of certiorari was filed on December 30, 1992, and granted on February 22, 1993.

## STATEMENT OF THE CASE

### 1. The District Court Action

Petitioner Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") manufactures rotary electric shavers and has sold them to distributors in the United States. These distributors include Respondent Windmere Corp., which has sold Izumi shavers under the names Ronson and Windmere, and Sears, Roebuck & Co. ("Sears") (Pet. A13-14; Pet. A22-23). This appeal arises out of a suit in the U.S. District Court for the Southern District of Florida which involved (1) the claim of North American Philips Corporation, one of the Respondent Philips companies<sup>1</sup> (collectively "Philips") against Izumi and Windmere for patent infringement, (2) U.S. Philips' claim against Windmere, alleging infringement of the trade dress rights Philips claimed for the configuration of its Norelco® rotary shaver and (3) Windmere's antitrust counterclaims against Philips (J.A. 12a-20a). An indemnity agreement between Izumi and Windmere required Izumi to pay for Windmere's defense of the trade dress infringement and patent claims, and Izumi did so (Pet. A11; Pet. A14). Windmere

<sup>1</sup> U.S. Philips Corporation, North American Philips Corporation and N.V. Philips Gloeilampenfabrieken.

undertook the expense of prosecuting its antitrust counterclaims.

There were two jury trials. These resulted in (1) judgment for Philips on its patent claim, (2) judgment against Philips on its trade dress claim, and (3) judgment for Windmere on its antitrust claim against Philips.

More particularly, in the first trial, Philips prevailed on its patent infringement claim against Izumi and Windmere, but was awarded only \$6,500.00 in damages (J.A. 21a). Neither party appealed that verdict. The jury rejected Philips' trade dress claim, finding that Philips' alleged trade dress was legally functional and, hence, was unprotectable (Pet. A28-29; J.A. 148a). Windmere's antitrust counterclaim was initially rejected by the Florida district court in a directed verdict and therefore was not presented to the jury in the first trial (J.A. 45a).

A second trial was held for two reasons. First, on a certified interlocutory appeal, the Federal Circuit held that Windmere's antitrust counterclaim stated a triable issue (J.A. 45a). Second, separately from the Federal Circuit's ruling on Windmere's antitrust claims, the Florida district court ordered a new trial on Philips' trade dress claim (J.A. 25a). Both the trade dress and antitrust claims were therefore tried to a second jury.

The second jury, like the first, found that Philips' trade dress was functional and, hence, unprotectable (J.A. 121a). The jury also found for Windmere on its antitrust counterclaims and awarded Windmere \$89,644,257 in trebled damages, plus attorneys fees, interest and costs (Pet. A7). Following the verdicts in the second trial, the Florida district court rejected Philips' motions for JNOV and new trial and entered

judgment in Windmere's favor on both Philips' trade dress claim and Windmere's antitrust counterclaim (J.A. 126a).

## 2. The Philips/Windmere Settlement

Philips appealed to the Federal Circuit seeking to overturn both the trade dress and antitrust verdicts. On May 6, 1992, however, after the appeal had been fully briefed, Philips settled, agreeing to pay Windmere \$57 million (J.A. 158a-159a). Windmere agreed to join Philips in asking the Federal Circuit to vacate the Florida district court's judgment, although the settlement was not conditioned on the grant of the motion to vacate (J.A. 159a).

One of Philips' explicit objectives was to nullify the Florida judgment. The Settlement Agreement states that:

It is the intention of all parties to this Settlement Agreement that the Judgment, the opinion and the jury interrogatories on [Philips'] unfair competition [trade dress] claim and Windmere's antitrust claim will be of no force and effect and shall have no precedential or other value, including, without limitation, any effect under the doctrines of collateral estoppel or res judicata.

(J.A. 159a-60a). Philips had far more than an academic interest in having the Florida judgment vacated through its settlement with Windmere. Philips was attempting to free itself of the collateral estoppel effect of the Florida judgment, which already had been applied against Philips in a case brought by Philips in federal court in Illinois.

## 3. The Illinois District Court Litigation

In 1985, while the Florida action was pending, Philips brought a similar action for patent infringement and trade dress infringement against Izumi and another of its

distributors, Sears, in the United States District Court for the Northern District of Illinois (Pet. A23). Following the judgment in the second jury trial in Florida, the Illinois district court held that Philips' trade dress claim against Sears was barred by collateral estoppel, because the functionality, and hence unprotectability, of Philips' trade dress was already established in the Florida case (Pet. A28-A30). Philips' effort to vacate the Florida judgment, therefore, was designed to reinstate its trade dress claim against Sears in Illinois.

Besides seeking to avoid *defensive* collateral estoppel on its trade dress claim in Illinois, Philips also sought to avoid *affirmative* collateral estoppel on an antitrust counterclaim brought by Izumi in the Illinois case, a claim that was similar to Windmere's successful antitrust claim in the Florida case. The Illinois district court refused to hear Izumi's antitrust claim on the ground that it was a compulsory counterclaim to Philips' patent claim against Izumi in the Florida action and therefore should have been brought in Florida. Nonetheless, Philips recognized that, on appeal, the Federal Circuit might allow Izumi to bring its antitrust counterclaim in Illinois, and if so, Izumi might invoke offensive collateral estoppel to preclude Philips' relitigation of the antitrust issues. Philips' motion to vacate the Florida judgment was therefore designed to prevent Izumi's, as well as Sears', use of that judgment in Illinois.

## 4. Izumi's Attempt to Oppose Vacatur

Izumi first learned that Philips and Windmere had settled their entire dispute on May 8, 1992 (J.A. 167a). The terms of the settlement were not disclosed to Izumi's counsel at that time. Three days later, on May 11, 1992,



Izumi learned that Philips and Windmere were seeking to vacate the Florida judgment. On that day, Philips and Windmere jointly moved to dismiss the Federal Circuit appeal as moot and to vacate the Florida judgments ("Philips/Windmere motion to vacate") (J.A. 167a).

Izumi had known of Philips' and Windmere's interest in settlement prior to the May 11 settlement date. On March 30, 1992, Izumi received a letter from Edward L. Foote, of the law firm of Winston & Strawn, the attorneys who had been representing both Izumi and Windmere in the Florida litigation (J.A. 169a). Mr. Foote informed Izumi that Philips and Windmere had agreed to financial terms for a possible settlement. Mr. Foote also told Izumi that "other negotiations . . . involving what to do with the outstanding judgment . . . will also proceed" (J.A. 169a). He further said that the ongoing settlement discussions could involve terms and conditions potentially adverse to Izumi's interest, that consequently, he could no longer represent Windmere in these negotiations, and that the negotiations would thereafter be undertaken by other attorneys directed solely by Windmere and who represented Windmere only (J.A. 169a).

From that point forward, until May 11, when the Philips/Windmere motion to vacate was filed, Izumi was left almost entirely in the dark as to the status and substance of the settlement negotiations. Izumi did not know that Philips and Windmere would act in concert to vacate the final judgment. Nor did Izumi have the opportunity to influence the terms of the settlement.<sup>2</sup>

<sup>2</sup> For example, in early April, 1992, Windmere's president suggested to Izumi's regular American attorney, William Androlia, that vacatur might be included among the terms of settlement. Mr.

[footnote continued]

Upon learning of the Philips/Windmere motion to vacate, Izumi promptly attempted to oppose the motion (J.A. 162a-63a).<sup>3</sup> Izumi pointed to its involvement in the defense of Philips' trade dress claim against its distributor and indemnitee, Windmere. Izumi also cited its obvious and direct interest in preserving the finality of the Florida judgments in light of the *Sears* case in Illinois, where Izumi indemnified Sears in that suit just as it indemnified Windmere in the Florida case. Nevertheless, the Federal Circuit refused to allow Izumi to intervene to oppose vacatur.

Having held that Izumi did not have standing to oppose the Philips/Windmere motion to vacate either as a party to the original district court action, as an affected third party, or as an intervenor (Pet. A2-A5), the Federal Circuit nevertheless addressed the merits of Izumi's opposition. However, even though vacatur created the prospect of duplicating in Illinois the lengthy and complex trial conducted in Florida, the Federal Circuit granted the motion to vacate (Pet. A5-A6).

### 5. The Basis of the Federal Circuit's Decision

On the question of Izumi's intervention, the Federal Circuit rejected as bases for intervention Izumi's support of the defense of the trade dress claim and the effect on Izumi of its outcome. The court explained that:

Androlia made clear that Izumi opposed vacatur and desired to preserve the Florida judgment intact (J.A. 167a). As is now evident, Izumi's protests carried little force with Windmere or Philips.

<sup>3</sup> Izumi correctly feared that Philips would seek to revive its trade dress claims in the Illinois action, thus exposing Izumi to the risk and expense of defending yet another action in which it indemnifies another of its distributors, Sears.

We do not discern in Izumi's financial support of Windmere the authority to intervene in this court. . . . Any financial or commercial interest Izumi might have in the unfair competition claim does not confer standing as a party, on the posture of this case.

(Pet. A4). The Federal Circuit further faulted Izumi for not intervening earlier (Pet. A4), even though Izumi had not learned of the settlement terms until May 11 and had lodged its opposition as promptly as possible (J.A. 162a).

On the merits of vacatur, the Federal Circuit recognized that at least four other courts of appeals have declined to vacate judgments merely because parties had settled their disputes.<sup>4</sup> Nonetheless, the court followed its "general rule" of vacating judgments following settlement.<sup>5</sup> Citing this Court's decisions in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950); *Duke Power Co. v. Greenwood County*, 299 U.S. 259 (1936); and *City Gas Co. of Florida v. Consolidated Gas Co. of Florida, Inc.*, 111 S. Ct. 1300 (1991), the Federal Circuit held that vacatur was appropriate because all claims on appeal had been rendered moot by settlement (Pet. A5-6). Moreover, even though settlement had not been conditioned on the court granting the motion to vacate, the court held that "The parties . . . are entitled to rely on our precedent," which it said requires vacatur when the parties settle all claims on appeal (Pet. A6).

<sup>4</sup> See *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3d Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991); *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989); *In re Memorial Hosp.*, 862 F.2d 1299 (7th Cir. 1988).

<sup>5</sup> The Federal Circuit is joined by the Second Circuit in routinely vacating final judgments following settlement by the parties. See *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280 (2d Cir. 1985).

## 6. The Effect of the Federal Circuit's Decision

Once the Florida court's judgment was vacated, Philips moved the Illinois district court to reinstate Philips' trade dress claim against Sears, arguing that the vacated Florida judgment should no longer have collateral estoppel effect. The Illinois court agreed and reinstated the claim (Pet. A43-A44). On Izumi's challenge, the district court certified, and the Federal Circuit accepted, an appeal from the reinstatement. That appeal has been stayed pending decision in this case. Thus, the grant of the Philips/Windmere motion to vacate not only resulted in the dismissal of Philips' appeal in the Federal Circuit but has renewed the prospect of a trade dress trial in Illinois.

## SUMMARY OF THE ARGUMENT

In denying Izumi even the right to intervene, the Federal Circuit disregarded the direct and substantial interests of Izumi in both the conduct and outcome of this litigation and Izumi's need to present an opposition to the Philips/Windmere motion to vacate. While the circuit court emphasized that Izumi was not a party to the claims on appeal, Izumi's interests and the lack of representation of those interests in the otherwise unopposed motion to vacate are precisely the reasons third parties such as Izumi are permitted to intervene. The court below was clearly in error in denying Izumi the right to oppose the motion to vacate.

The Federal Circuit also erred in granting the Philips/Windmere motion. The practice of the Federal Circuit is to routinely grant a motion, brought by all parties to the appeal, to vacate the district court judgment on the basis of a settlement which moots the entire action on appeal.



Although the Federal Circuit relies upon this Court's decision in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), as authority for its practice, that case does not address the circumstance of settlement. Moreover, in *Karcher v. May*, 484 U.S. 72 (1987), the Court interpreted *Munsingwear* as requiring vacatur only when mootness occurs beyond the control of the parties—a circumstance not involved in settlement. In short, this Court's precedents do not provide authority for the Federal Circuit's practice of routinely vacating district court judgments at the request of settling parties.

Other circuit courts, in a more reasoned approach than the Federal Circuit's automatic vacatur rule, have considered facts and circumstances which demonstrate private or public interest in preserving the district court judgment, including the adverse effects of vacatur on third parties, the public, and judicial economy. These factors should have been considered here, and the motion to vacate the district court judgment against Philips on the trade dress and antitrust issues should have been denied.

The vacatur has had a direct and immediate impact on other litigation, requiring Izumi and Sears to expend more time, effort and expense on that litigation. It does not enhance judicial economy. The Federal Circuit's order has increased the prospect of at least one further trial on the same issues. The resources that will have to be devoted in that trial will far eclipse any savings achieved by vacating the Florida judgment and dismissing Philips' appeal.

The Federal Circuit could have achieved true judicial economy by dismissing Philips' appeal without vacating the judgment below. Such action would neither have burdened the courts nor have discouraged settlement

because the Philips/Windmere settlement agreement was not contingent on the Federal Circuit's granting the motion to vacate. Furthermore, the public has a demonstrable interest in preventing parties from asserting invalid trade dress rights and in redressing antitrust violations, and thus will benefit from preserving the Florida judgment.

The Federal Circuit committed errors of law in refusing to hear Izumi's opposition and in granting the Philips/Windmere motion to vacate solely because the action on appeal was mooted by settlement. Accordingly, the Court is respectfully urged to reverse the decision below and mandate that the Philips/Windmere motion to vacate be denied.

## ARGUMENT

### I. Izumi Has the Right to Intervene

As Respondents conceded in their opposition to certiorari, (Joint Brief of Respondents in Opposition, hereinafter "Opp.", at 5), the denial of Izumi's motion to intervene is a matter that can properly be reviewed by this Court. *Marino v. Ortiz*, 484 U.S. 301, 304 (1988); *International Union, UAW v. Scofield*, 382 U.S. 205, 209 (1965).

#### A. Intervention Is Warranted Under The Present Circumstances

In holding that Izumi lacks standing to intervene, the Federal Circuit dismissed Izumi's substantial involvement in the Florida litigation, both as the manufacturer of the shavers accused of infringing Philips' alleged trade dress rights, and as the party who fully funded Windmere's



defense against that trade dress claim. The court erred in so holding.

This Court has said that, in determining whether a party should be permitted to intervene in an appeal, the policies underlying Rule 24(a)(2) of the Federal Rules of Civil Procedure provide guidance. *International Union, UAW*, 382 U.S. at 217, n. 10. The rule permits intervention as of right when:

- (1) the applicant claims an interest relating to the property or transaction which is the subject of the action;
- (2) applicant is so situated that the disposition of the action may as a practical matter impair the applicant's ability to protect that interest; and
- (3) applicant's interest is not adequately represented by existing parties.

Under these criteria, a party that funds litigation and that will be affected in other lawsuits by the collateral estoppel implications of a judgment has an interest that justifies intervention as of right. *Triax Co. v. TRW, Inc.*, 724 F.2d 1224, 1227 (6th Cir. 1984).

*Triax* was a patent infringement action in which the district court granted summary judgment holding certain patents invalid. The plaintiff *Triax*, the assignee of the patents, declined to appeal. *Lemelson*, the assignor of the patents, though not previously a party to the litigation, moved to intervene for purposes of appealing the invalidity holdings. The Sixth Circuit held that *Lemelson* had a right to intervene in view of:

- (1) his substantial interest in the litigation—*Lemelson* had paid 40 percent of the plaintiff's litiga-

tion costs and had actively participated in the case;

- (2) the substantial risk that his interests would be impaired by the district court judgment, which would preclude him from collecting royalties and from asserting his patents against other infringers; and
- (3) the fact that his interests were no longer being adequately protected by the plaintiff, who had decided not to appeal from the district court's ruling.

*Id.* at 1227.

*Izumi's* interests supporting intervention are even more compelling than were *Lemelson's*. *Izumi* manufactures the products which were the subject of the Florida actions and would have been required to indemnify *Windmere* had *Windmere* been held liable for infringement. Moreover, if *Windmere* had been enjoined from selling *Izumi*-manufactured razors, *Izumi's* business would have suffered still further injury.

*Izumi* was also responsible, by virtue of its indemnity agreement with *Windmere*, for paying for *Windmere's* defense of the trade dress charges leveled against *Windmere* by *Philips*, including the cost of the appeal on the trade dress claim. Moreover, *Izumi* was not a detached observer during the two Florida jury trials. *Izumi* was a party to the patent claim in the first trial and actively participated in the trial of the trade dress claim and antitrust counterclaim during both the first and second jury trials. It is unlikely that there would be a nonparty having a more direct and intimate involvement in a liti-

gation, and a more direct stake in its outcome, than Izumi.<sup>6</sup>

At the time Izumi moved to intervene, Windmere had not only ceased representing Izumi's interest, but had just taken a step directly adverse to Izumi—joining Philips in the motion to vacate. Windmere chose, through the decision to join Philips in moving to vacate the judgment of the Florida district court, to pursue its private financial interests at Izumi's expense and to Izumi's profound prejudice. The Federal Circuit failed to properly appreciate Izumi's interest in the Florida litigation, and improperly minimized the extent to which that interest would be harmed by vacating the Florida judgment.

The Federal Circuit's order severely harms, rather than benefits, Izumi. The order creates the prospect of Izumi having to bankroll yet another costly defense against the same claim. Izumi opposed the Philips/Windmere motion to vacate because it recognized that vacatur would jeopardize the collateral estoppel effect of the Florida judgment, and might enable Philips to revive its trade dress claims against another distributor of Izumi shavers, Sears, in Illinois. This scenario now looms in the wake of the Federal Circuit's order, with the Illinois district court

<sup>6</sup>For further examples of situations where a nonparty was permitted to intervene on appeal, see *Goodman v. Hueblein, Inc.*, 682 F.2d 44 (2d Cir. 1982) (nonparty attorneys permitted to intervene to defend attorney fee award when plaintiff refused to defend appeal of fee award); *United States v. Bursey*, 515 F.2d 1228, 1238 & n.24 (5th Cir. 1975) (nonparty permitted to intervene on appeal to oppose district court order, without notice, disposing of appearance bond); *Hurd v. Illinois Bell Telephone Co.*, 234 F.2d 942, 944 (7th Cir. 1956) (nonparty pensioner granted permissive intervention on appeal even though not bound by judgment, because the case was "fraught with elements of possible prejudice to petitioner.").

having ruled that the Florida judgment no longer bars Philips' trade dress claim against Sears.

The Federal Circuit's order also casts a cloud over Izumi's entire rotary shaver business in the United States. The Florida judgment, if left undisturbed, would permit Izumi to sell these shavers in the United States through other distributors like Windmere and Sears, free from further interference from Philips. On the other hand, in view of Philips' past action, the vacatur of the judgment raises the spectre of lawsuits by Philips against any distributor who agrees to carry Izumi rotary shavers.

For these reasons, it is evident that the Federal Circuit's action will significantly impair Izumi's interests within the meaning of Fed. R. Civ. P. 24(a)(2).

#### B. Izumi's Motion to Intervene Was Timely

The Federal Circuit also erred in questioning the timeliness of Izumi's motion to intervene. A motion to intervene is timely, even at a late stage in the proceedings, if the potential intervenor promptly moves to intervene after learning that its interests are no longer being protected by its previous representatives. *United Airlines, Inc. v. McDonald*, 432 U.S. 385, 394 (1977); See, e.g., *Officers for Justice v. Civil Serv. Comm'n of San Francisco*, 934 F.2d 1092, 1095-96 (9th Cir. 1991) (motion to intervene was timely 16 years after complaint was filed and 10 years after consent decree was entered); *Triax*, 724 F.2d at 1228-29.

Here, Izumi's interests were fully represented by its indemnitee, Windmere, throughout the Florida litigation, and through the briefing of the appeal to the Federal Circuit. Indeed, Izumi and Windmere were represented by the same law firms. Izumi's interest did not

diverge from Windmere's until Windmere aligned itself with Philips' effort to vacate the Florida judgments. Before then, Izumi had no reason to intervene either in the appeal or at the trial below. As soon as it became clear from the Philips/Windmere motion to vacate that Windmere's positions and actions in the lawsuit no longer coincided with Izumi's interests, Izumi acted to intervene and oppose the motion. Izumi's efforts to intervene were timely.

The Federal Circuit's refusal to even allow Izumi to intervene deprived the entity with the greatest interest in opposing vacatur the opportunity to do so. The Federal Circuit's order was therefore inconsistent with the fundamental interests of justice and the adversarial system, and constitutes an abuse of discretion. Accordingly, the Court should reverse the decision of the Federal Circuit, hold that the Federal Circuit should have granted Izumi's motion to intervene, and accord Petitioner standing as an intervening party to oppose the Philips/Windmere motion to vacate.

## II. The Federal Circuit Committed Reversible Error in Granting the Motion to Vacate

This Court granted certiorari on the question of whether the circuit courts of appeals should routinely grant a motion to vacate the district court judgment brought by parties on appeal who settle the litigation. For the reasons developed herein, Petitioner submits that such routine vacatur on settlement should be rejected. That practice, adopted by the Federal Circuit and applied in this case, fails to take into account the interest of affected third parties, judicial efficiency and the public. Thus, the Federal Circuit's practice results in vacatur even

when, as here, vacatur is inimical to these important interests. The Federal Circuit's decision in this case should be reversed and the Philips/Windmere motion to vacate denied.

### A. The Federal Circuit's Practice Is to Routinely Vacate the District Court Judgment Whenever Settlement Moots the Action on Appeal

Instead of weighing all relevant facts and circumstances, the Federal Circuit in the opinion below followed its consistently held view that:

[V]acatur of the judgment at trial is appropriate when settlement moots the action on appeal. *Federal Data Corp. v. SMS Data Products Group, Inc.* [sic] 819 F.2d 277, 280 (Fed. Cir. 1987); *Smith Int'l Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988).

(Pet. A5). Based on this precedent, the Federal Circuit focused its analysis of the Philips/Windmere motion to vacate exclusively on whether their settlement mooted the action on appeal. The court concluded that:

Although in the Federal Circuit vacatur is the general rule, we do not hold that vacatur must always be granted, whatever the circumstances. In this case, however, as in *Federal Data Corp.* and *Smith International*, the settlement between Philips and Windmere includes all the parties to the appeal. All of the claims of the judgments were appealed, and have now become entirely moot. *See Munsingwear*. The parties to this appeal are entitled to rely on our precedent. Vacatur of the judgments on appeal is appropriate.



(Pet. A6). Thus, by its terms the Federal Circuit's opinion declares vacatur mandatory whenever all parties to the appeal have settled all their claims on appeal.

The prior Federal Circuit decisions cited by the circuit court confirm that the court's practice is to automatically grant settling parties' motion to vacate. For example, *Federal Data* involved an appeal from the decision of the Board of Contract Appeals not to vacate its own decision at the request of the parties to a contract bid protest action who reached a settlement. The Board had weighed the parties' private interest and the public interest in settlement against public policy considerations and concluded that it would be against the public interest to vacate the Board decision. 819 F.2d at 278-79.

The Federal Circuit in *Federal Data* rejected the Board's rationale, citing *Nestle Co. v. Chester's Market, Inc.*, 756 F.2d 280 (2d Cir. 1985). 819 F.2d at 279-80. In *Nestle*, the Second Circuit Court of Appeals held that it was an abuse of discretion for the district court to refuse to vacate on the ground that the public interest in preserving the judgment was greater than the parties' interest and desire. The Second Circuit viewed the district court's decision as having the effect of forcing the parties to bear the costs and risks of further litigation against their will. Adopting the Second Circuit's reasoning, the Federal Circuit considered it unjust and wasteful of judicial resources to require the parties in *Federal Data* who had settled their differences to continue to litigate. 819 F.2d at 280.

Although the Federal Circuit stated that "we do not view vacatur as automatic under all circumstances" (Pet. A5) and "we do not hold that vacatur must always be granted, whatever the circumstances" (Pet. A6), those statements do not mean that the Federal Circuit applied

anything other than an automatic vacatur rule *here*, *Contra*, Opp. at 8. Those statements simply preserve non-vacatur for other situations, such as where not all parties to an appeal have settled or where not all claims on appeal have been settled. The Federal Circuit, immediately after those statements, went on to say that vacatur *was* required here because all parties to the appeal had settled all their claims on appeal, and that is the rule established by the cited precedents. Thus, the decision to vacate here does not rest on any weighing of case-specific facts or circumstances, but only on a rule treating vacatur as automatic when an entire case on appeal is mooted by settlement.

#### **B. The Federal Circuit's Practice of Vacatur on Settlement Is Based on an Erroneous Interpretation of Supreme Court Cases**

The Federal Circuit relies upon certain decisions of this Court as the authority for routinely vacating district court judgments when a settlement moots the action on appeal. In the opinion below, the circuit court held that:

Authority is found in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) and *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267 (1936), which provide that judgments should in general be vacated when the case becomes moot. In *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, 111 S. Ct. 1300 (1991) the Court summarily vacated a decision of the Eleventh Circuit and ordered the appellate court to dismiss the case under *Munsingwear*, apparently because the parties had settled. *Consolidated Gas Co. of Florida v. City Gas Co. of Florida*, 931 F.2d 710 (11th Cir. 1981) (on remand from Supreme Court).

(Pet. A5).

As explained further below, however, the *Munsingwear* case does not apply to mootness arising out of a settlement, and neither the older *Duke Power* decision nor the summary order in *City Gas* requires vacatur when parties settle. Indeed, as the Federal Circuit acknowledged, "some circuits have declined to vacate judgments merely because the parties settled their dispute," citing decisions of the Third, Seventh, Ninth and D.C. Circuits (Pet. A5). Thus, the Federal Circuit's interpretation of this Court's decisions as holding that the district court judgment should be vacated whenever there is a settlement which renders the action on appeal moot is not uniformly accepted among the circuit courts, has been specifically rejected by other circuit courts, and is submitted to be in error.

#### 1. *Munsingwear* Does Not Involve Settlement

The *Munsingwear* case has been recognized as "perhaps the leading case on the proper disposition of cases that become moot on appeal." *Great Western Sugar Co. v. Nelson*, 442 U.S. 92, 93 at\* (1979). However, contrary to the Federal Circuit's interpretation, *Munsingwear* does not require or provide authority for vacatur whenever a case becomes moot on appeal because the parties have settled. Mootness can arise in ways other than through the voluntary settlement of the dispute by the parties to an appeal, such as through an action beyond the control of either party. In *Munsingwear*, mootness came about through a change in law which eliminated the controversy on appeal, and the opinion discusses vacatur in that context. It does not address mootness caused by settlement.

In *Munsingwear*, the U.S. Government had appealed a district court decision finding that *Munsingwear's* prices did not violate a pricing regulation that was in force

at the time of the litigation. During the pendency of the appeal, the *Munsingwear* products at issue were deregulated. Although the U.S. Government still disagreed with the district court's decision, and wished to pursue that disagreement, the appeal was dismissed as moot. In that circumstance, the Court in *Munsingwear* stated that vacating the district court judgment "clears the path for future relitigation of the issues between the parties and eliminates a judgment, review of which was prevented through happenstance." *Id.* at 40.

In a voluntary settlement, the district court judgment does not become *unreviewable* because of circumstances beyond the control of the parties, i.e., happenstance. Thus, the Federal Circuit was in error in interpreting *Munsingwear* as authority for vacatur on settlement.

#### 2. *Karcher* Confirms the Distinction Between *Munsingwear* "Happenstance" and Actions Within the Control of the Parties

In *Karcher v. May*, 484 U.S. 72, 82-83 (1987), the Court confirmed that *Munsingwear* concerns only mootness by "happenstance" and not mootness created by the parties. *Karcher* involved a challenge to a New Jersey state statute permitting a minute of silence in public schools. After the named defendants declined to defend the action, the presiding legislative officers intervened as defendants. The district court declared the state statute unconstitutional, and the Third Circuit affirmed.

While the *Karcher* case was pending before the Supreme Court, the intervenors lost their posts as presiding officers. The new presiding officers voluntarily withdrew the appeal leading to dismissal of the appeal for lack of

jurisdiction. However, the intervenors asked the Court to vacate the lower court judgments of unconstitutionality. This Court rejected that request, distinguishing the voluntary withdrawal of the appeal from the "happenstance" which caused mootness in *Munsingwear*, holding that:

This controversy did not become moot due to circumstances unattributable to any of the parties. The controversy ended when the losing party — the New Jersey Legislature — declined to pursue its appeal. Accordingly, the *Munsingwear* procedure is inapplicable to this case.

*Id.* at 83.

There is no meaningful distinction between the facts of *Karcher*, where the appellant voluntarily dismissed its appeal, and the present case, where Philips and Windmere have settled their dispute, moved to dismiss the appeal and for vacatur, but have not conditioned settlement on their motion to vacate being granted. Hence, *Munsingwear* not only fails to provide authority for granting the motion to vacate here, but *Karcher* is authority for refusing to do so.

### 3. *Duke Power* Does Not Mandate Vacatur Where Settlement Is Involved

The Federal Circuit also cited *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267-68 (1936) as supporting vacatur following settlement. In *Duke Power*, the Court said that "[w]here it appears upon appeal that the controversy has become entirely moot, it is the duty of the appellate court to set aside the decree below and to remand the cause with directions to dismiss." *Id.* at 267. However, as with *Munsingwear*, *Duke Power* involved mootness caused by a change in the underlying

circumstances — not a settlement entered into by the parties. *Duke Power* does not create a duty on the part of the appellate court to vacate a district court judgment when the parties settle.

### 4. The Summary Order in *City Gas* Does Not Provide Authority for the Federal Circuit's Automatic Vacatur Rule

Lastly, the Federal Circuit cited *City Gas Co. of Florida v. Consolidated Gas Co. of Florida, Inc.*, 111 S. Ct. 1300 (1991), as authority for its vacatur practice. *City Gas* and other such summary orders cannot fairly be interpreted as this Court's definitive pronouncement that vacatur is required whenever disputes are settled while on appeal. Indeed, the Court has acknowledged that its summary decisions are of limited precedential value; they do not foreclose the Court from considering more fully questions previously disposed of summarily. *Massachusetts Board of Retirement v. Murgia*, 427 U.S. 307, 309 n.1 (1976); *Edelman v. Jordan*, 415 U.S. 651, 671 (1974).

For these reasons, Petitioner submits that the Federal Circuit's practice of routinely vacating judgment when the parties settle cannot be grounded on this Court's precedent.



### C. The Federal Circuit Is in Error in Granting Vacatur Merely Because the Parties Settle and Request It

The Federal Circuit takes an extreme position on vacatur in granting the motion to vacate whenever the parties settle the action on appeal. Other circuit courts of appeals recognize that vacatur is not mandatory when the action on appeal becomes moot due to settlement. For example, in *In re United States*, 927 F.2d 626, 627 (D.C. Cir. 1991), the court denied a motion to vacate and held that "[w]e do not believe that vacatur is appropriate, . . . when a matter has been mooted after judgment only because the parties have entered into a settlement."

Some courts routinely deny motions to vacate based on settlement.<sup>7</sup> Others seek to balance the parties' private interest in vacatur against the facts bearing on the public interest in preserving the district court judgment.<sup>8</sup> These courts take a more reasoned approach than the Federal Circuit. In deciding whether to grant the parties' motion to vacate, these courts correctly consider the possible adverse effects of vacatur on third parties, the public, and judicial efficiency, and give weight to the benefits of preserving the finality of the district court judgment.

The Seventh Circuit's decision in *Memorial Hospital* illustrates this approach. There, the court explained the importance of looking beyond the interests of the parties

<sup>7</sup> See *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127, 129 (3d Cir. 1991); *In re Memorial Hosp.*, 862 F.2d 1299, 1301 (7th Cir. 1988).

<sup>8</sup> See *In re United States*, 927 F.2d at 628; *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989); *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982).

seeking vacatur, to consider vacatur's impact on future litigants and the courts:

When the parties' bargain calls for judicial action . . . the benefits of settlement to the parties are not the only desiderata. The pact may affect third parties. . . . [I]t may be inappropriate to approve a settlement that squanders judicial time that has already been invested. The bankruptcy and district judges devoted many hours to this case and resolved it on the merits. Their decisions have persuasive force as precedent that may save other judges and litigants time in future cases.

862 F.2d at 1302.

The interests in preserving the finality of judgment and sparing future litigants from the burdens of having to defend against previously adjudicated claims have figured prominently in other decisions in which an automatic vacatur rule has been rejected. In *National Union*, the court refused to vacate a judgment adverse to the plaintiff because there were related actions brought by the plaintiff against third parties who had intervened in the motion to vacate for the express purpose of preserving that judgment. The court emphasized that "[t]o the extent there may be preclusive effect, *National Union* should not be able to avoid those effects through settlement and dismissal of the appeal."<sup>9</sup>

<sup>9</sup> 891 F.2d at 769. Cf. *Harrison Western Corp. v. United States*, 792 F.2d 1391 (9th Cir. 1986), which involved a dispute arising out of a government contract. The Government executed a second contract thereby precluding it from bringing any action related to the first. With no possibility of relitigation, the court vacated.

The Ninth Circuit in *Ringsby Truck Lines* had earlier recognized that automatic vacatur plays havoc with the important interest of judicial finality:

If the effect of post-judgment settlements were automatically to vacate the trial court's judgment, any litigant dissatisfied with a trial court's findings would be able to have them wiped from the books. "It would be quite destructive to the principle of judicial finality to put such a litigant in a position to destroy the collateral conclusiveness of a judgment by destroying his own right of appeal." 1B Moore's Federal Practice ¶ 0.416[6] at p. 2327 (2d ed. 1982). That possibility would undermine the risks inherent in taking any controversy to trial and, in cases such as this one, provide the dissatisfied party with an opportunity to relitigate the same issues. [Footnote omitted.]

686 F.2d at 721.

The Federal Circuit's approach precludes consideration of the many factors which are crucial to assessing whether a motion to vacate should be granted where the parties settle. If the Federal Circuit had considered the facts and circumstances of this case, it could not properly have vacated the Florida judgments.

**D. Under the Facts and Circumstances Here, the Philips/Windmere Motion to Vacate Could Not Reasonably Have Been Granted**

**1. Philips Should Not Be Able to Use Vacatur to Avoid the Preclusive Effects of the Florida Judgment**

A losing party should not be permitted to destroy the preclusive effect of an adverse judgment by deliberately mooting questions on appeal and requesting vacatur, thus "retiring to lick its wounds, fully intending to come out fighting again."<sup>10</sup> Here, there can be no doubt that Philips seeks, through vacatur, to eliminate the preclusive effect of the Florida judgment holding Philips' trade dress invalid and unenforceable to the direct and serious detriment of others who were not parties to the Settlement Agreement, including Izumi and its customer Sears.

Until the Federal Circuit's ruling, the Florida judgment had precluded Philips from pursuing its trade dress action in the Illinois district court against Sears. Once the Federal Circuit issued its order vacating the Florida judgment, Philips immediately "came out fighting" in the Illinois action, successfully moving the Illinois district court to reinstate Philips' trade dress claim. In addition, Philips sought to eliminate the preclusive effect of the Florida antitrust judgment. In short, Philips seeks to use vacatur for both offensive and defensive purposes; posturing itself for a second chance at issues which have already been fully litigated and decided against Philips.

<sup>10</sup> *Harris v. Board of Governors of the Federal Reserve System*, 938 F.2d 720, 724 (7th Cir. 1991). See also *Commodity Futures Trading Comm'n v. Board of Trade*, 701 F.2d 653, 656 (7th Cir. 1983); *State of Wisconsin v. Baker*, 698 F.2d 1323, 1330-31 (7th Cir.), cert. denied, 463 U.S. 1207 (1983).

In *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971), however, this Court recognized the unfairness of requiring defendants to relitigate issues decided in prior litigation:

In any lawsuit where a defendant . . . is forced to present a complete defense on the merits to a claim which the plaintiff has fully litigated and lost in a prior action, there is an arguable misallocation of resources. To the extent the defendant in the second suit may not win by asserting, without contradiction, that the plaintiff had fully and fairly, but unsuccessfully, litigated the same claim in the prior suit, the defendant's time and money are diverted from alternative uses — productive or otherwise — to relitigation of a decided issue.

402 U.S. at 329.

To the same effect, the Court has explained the importance of the collateral estoppel doctrine:

To preclude parties from contesting matters that they have had a full and fair opportunity to litigate protects their adversaries from the expense and vexation attending multiple lawsuits, conserves judicial resources, and fosters reliance on judicial action by minimizing the possibility of inconsistent decisions.

*Montana v. United States*, 440 U.S. 147, 153-54 (1979).

Ignoring these important considerations, the Federal Circuit applied its automatic vacatur rule, even though it was clear that Philips would attempt to relitigate its trade dress claim in Illinois. Izumi has already spent millions of dollars to defend Philips' trade dress claim and thereby pave the way for Izumi rotary shavers to be sold by Sears and other distributors. The Federal Circuit's order unfairly burdens Izumi and Sears by diminishing the value of Izumi's substantial investment in securing the

Florida judgment, and could also require Izumi to further drain its resources to support Sears' defense to Philips' revived trade dress claim in Illinois.<sup>11</sup>

Respondents may argue that it would be unfair to saddle litigants who settle with the preclusive and precedential effects of an unreviewed judgment. However, where an appellant causes the dismissal of its own appeal, it is in "no position to complain that [its] right of review . . . has been lost."<sup>12</sup>

Moreover, when a party foregoes or dismisses its appeal without settlement, it is clear that *res judicata* and collat-

<sup>11</sup> Izumi's sales contracts with Sears require Izumi to hold harmless and indemnify Sears from and against all claims, actions, liabilities, losses, costs and expenses arising out of any actual or alleged infringement of any patent, trademark or copyright by the shavers furnished by Izumi, or in any unfair competition involving the products.

<sup>12</sup> *Ringsby Truck Lines*, 686 F.2d at 722; *Center for Science in the Pub. Interest v. Regan*, 727 F.2d 1161, 1166 (D.C. Cir. 1984). See also, *United States v. Garde*, 848 F.2d 1307, 1311 (D.C. Cir. 1988), where the court denied vacatur in the circumstance when the appeal became moot as a result of the Government's substantial compliance with the terms of the appealed decision. *Accord Constangy, Brooks & Smith v. National Labor Rel. Bd.*, 851 F.2d 839, 842 (6th Cir. 1988); *Westmoreland v. National Transp. Safety Bd.*, 833 F.2d 1461, 1463 (11th Cir. 1987). In *Garde*, the court held that, "[t]he distinction between litigants who are and are not responsible for the circumstances that render the case moot is important. We do not wish to encourage litigants who are dissatisfied with the decision of the trial court 'to have them wiped from the books' by merely filing an appeal, then complying with the order or judgment below and petitioning for a vacatur of the adverse trial court decision." *Garde* at 1311.



eral estoppel applies to that unreviewed judgment.<sup>13</sup> It is no more unfair to apply claim or issue preclusion where parties voluntarily forego appellate review following settlement. As one court has noted:

*Munsingwear* holds that the judgment in a moot case should be vacated to relieve the parties of collateral consequences when they were unable to obtain appellate review. The [appellants here] were not disabled from obtaining review; they have simply chosen, for reasons they deem sufficient, to forego the entitlement they possess.<sup>14</sup>

In the present case, the Illinois court concluded that Philips had had a full and fair opportunity to litigate its trade dress claim in Florida and, therefore, applied collateral estoppel to preclude Philips from relitigating that claim (Pet. A28-30). Philips should not be able to escape the Illinois court's determination simply by settling its dispute with Windmere. However, the Federal Circuit's order vacating the Florida judgment erroneously permitted Philips to do just that.

<sup>13</sup> See *Munsingwear*, 340 U.S. at 39; *Ringsby*, 686 F.2d at 722. In any event, res judicata or collateral estoppel take effect upon final judgment whether or not an appeal is taken. 1B James W. Moore et al., *Moore's Federal Practice* ¶0.416[3] at p. 521-522 (2d ed. 1993).

<sup>14</sup> *Memorial Hosp.*, 862 F.2d at 1301. See also *Clarendon*, 936 F.2d at 130, where the Third Circuit expressed its approval of the approach taken in *Memorial Hospital*, viewing *Munsingwear* as only dealing with an appeal mooted by circumstances beyond either party's control so that the parties are unable to obtain appellate review. *Id.* at 130. The court in *Clarendon* regarded *Karcher*, where this Court held vacatur to be inapplicable, as bearing a closer resemblance to settlement than *Munsingwear*. *Id.*

## 2. The Federal Circuit's Order Burdens Not Only Izumi and Sears, But the Judicial System As Well

The Federal Circuit's order also unnecessarily burdens the judiciary by requiring the federal courts to expend time, money and effort to adjudicate issues already resolved by another court. Today, the federal judiciary is in the midst of a crisis. The volume<sup>15</sup> and cost<sup>16</sup> of litigation continue to increase. At the same time, the the resources available to the courts have dwindled.<sup>17</sup> The Federal Circuit's order, which erased the Florida judgment entered after two lengthy and costly jury trials and which paves the way for Philips to require yet another district court and jury to hear its claims, only adds to the burden on the judicial system.

The Federal Circuit's vacatur practice plainly does not promote judicial efficiency in a case such as this where there is related litigation pending. The interest of judicial economy will not be served if scarce judicial resources have to be spent to litigate issues yet another

<sup>15</sup> The current case load crisis and its impact are well recognized. See, e.g., Federal Courts Study Comm'n, *Report of the Federal Courts Study Comm'n*, Admin. Office of the United States Courts (April 2, 1990); Civil Justice Reform Act of 1990, S. Rep. No. 416, 101st Cong., 2d Sess. (1990), reprinted in 1990 U.S.C.-C.A.N. 6802.

<sup>16</sup> Each day of a civil jury trial has been determined to cost a district court over \$1,600 per day without a jury and over \$2,700 a day with a jury. Budget Dev. Branch, Admin. Office of the United States Courts, *Daily Cost of a Civil Trial* (February 12, 1992) (on the file with the Budget Dev. Branch).

<sup>17</sup> The tremendous burden on the judicial system was dramatically underscored by the startling announcement that, in the absence of supplemental funding, no civil jury trials would commence in any federal district court starting on May 12, 1993.

time. The Federal Circuit should have considered this factor and concluded that vacatur should not be granted in this case.

Although the decision to grant the Philips/Windmere motion to vacate spared the Federal Circuit from having to decide Philips' appeal, judicial efficiency is not being achieved. Any immediate savings resulting from the Federal Circuit's order would be dwarfed by the resources that the Illinois district court, and other courts, would be required to expend retrying the trade dress claim.

While ostensibly justified as a means of achieving judicial economy by encouraging settlement, the Federal Circuit's automatic vacatur rule may actually have the opposite effect. It does not provide an incentive for settlement *before* a case goes to trial since a party in Philips' position would know that, under the Federal Circuit practice, an unfavorable result could be erased through a post-judgment settlement and request for vacatur, as was done here. On the other hand, if motions to vacate based on settlement are *not* routinely granted, the parties would be encouraged to settle their dispute as early as possible, thereby substantially easing the judiciary's burden.<sup>18</sup> See *Memorial Hospital*, 862 F.2d at 1302 ("[i]f parties want to avoid stare decisis and preclusive effects, they need only settle before the district court renders a decision, an outcome our approach encourages").

Moreover, denying the motion to vacate here would not have frustrated the parties' settlement because the

<sup>18</sup>This is especially the case for a party such as Philips which already had lost one jury verdict on its trade dress claim and had been told by the Federal Circuit that Windmere had introduced enough evidence for a jury to find that Philips had violated the antitrust laws (J.A. 61a-65a).

Philips/Windmere Settlement Agreement was not conditioned on the Federal Circuit's granting of their motion to vacate. Thus, the public interest in promoting settlement does not justify the Federal Circuit's practice of automatically vacating judgments when the parties settle, especially in this case.

### 3. Vacatur Conflicts With the Interests of Justice in the Present Case

As this Court has recognized, there is a strong public interest in the finality of judgments. Allowing parties to obtain vacatur on demand, as in the present case, and to thereby erase judgments that have been entered after careful deliberation by courts and juries, has profound implications for the public interest in finality. Indeed, some commentators have criticized the practice.<sup>19</sup>

The Seventh Circuit noted in *Memorial Hospital* that:

When a clash between genuine adversaries produces a precedent, however, the judicial system ought not allow the social value of that precedent, created at cost to the public and other litigants, to be a bargaining chip in the process of settlement. The precedent, a public act of a public official, is not the parties' property.

862 F.2d at 1302.

<sup>19</sup>See Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 Cornell L. Rev. 589 (1991); Note, *Avoiding Issue Preclusion by Settlement Conditioned Upon the Vacatur of Entered Judgments*, 96 Yale L.J. 860, 867 (1987) ("[c]ircumventing preclusion by vacating existing judgments threatens the public interests in finality of judgments, judicial economy, legitimacy of the legal system, and consistency.")



In addition to depriving the public of judicial precedents created at substantial cost to the public, the Federal Circuit's order is contrary to the public interest because of the *nature* of the vacated judgment. For example, the Florida judgment holding that Philips' trade dress is legally functional and thus unprotectable is steeped in the public interest. Unpatented designs that are legally functional are in the public domain, and any and all competitors, including Izumi, Windmere, Sears and others, may copy them.<sup>20</sup> *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141, 152-53 (1989). The Federal Circuit's order, however, grants Philips' trade dress a reprieve from finally being adjudged to be in the public domain, casts a shadow over Izumi's and other's right to make and sell their rotary shavers in competition with Philips, and thus potentially deprives consumers of the well-known benefits of vigorous competition — more and better products to choose from and lower prices.<sup>21</sup>

The Federal Circuit failed to credit these important public interests when it vacated the Florida judgment. Rather, the circuit court, in rejecting Izumi's opposition

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<sup>20</sup> See *Wang Lab., Inc. v. Toshiba Corp.*, 793 F. Supp. 676, 678 (E.D. Va. 1992), where following the Federal Circuit's vacatur of a judgment of patent invalidity, the district court expressed its concern that vacating the judgment, at the request of the parties who settle, and without reviewing the merits of the case, may result in an invalid patent being "foisted off on the public and left to distort the market." Here, the Federal Circuit's grant of the Philips/Windmere motion to vacate has a similar effect because it may result in an invalid trade dress claim being "foisted off on the public and left to distort the market."

<sup>21</sup> Likewise steeped in the public interest is the Florida judgment holding that Philips had violated the antitrust laws by creating artificial barriers to full and fair competition from Windmere and other potential distributors of rotary shavers.

to the motion to vacate, subordinated the interests and rights of the public to Philips' and Windmere's private commercial and strategic interests.

In vacating the judgment of trade dress invalidity and antitrust violation, the Federal Circuit permitted the losing party, Philips, to re-erect formidable barriers to competition in the multi-million dollar rotary shaver industry simply because it had agreed to pay almost two-thirds of an \$86 million judgment against it, thereby settling its dispute with Windmere. The Federal Circuit was in error in disregarding the effects of vacatur on the public interest.

In sum, the circuit courts should *not* routinely grant motions to vacate on settlement, and the Federal Circuit should not have done so here. Rather, the Federal Circuit should have considered such relevant factors as Izumi's interest in preserving the Florida judgments, the impact of vacatur on Izumi and Sears in Illinois litigation, the prospect of additional trials of issues already decided in Florida at great cost, and the public interest in preserving the finality of judgments of trade dress invalidity and antitrust violation. The Federal Circuit should have balanced these important interests against Philips' private interest in erasing the unfavorable judgments rendered in Florida and in continuing litigation against Izumi and its customers.

In fact, there is no good reason to grant the Philips/Windmere motion to vacate, and every reason to deny it. Had the Federal Circuit weighed these competing interests, it could not reasonably have concluded that vacatur is appropriate.



# CONCLUSION

For the reasons given herein, the Court is respectfully requested to reverse the decision of the Federal Circuit and order the Federal Circuit to deny the Philips/Windmere motion to vacate and to reinstate the Florida district court judgment.

Respectfully submitted,

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April 22, 1993

MAY 21 1993

OFFICE OF THE CLERK

IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

—v.—

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS  
CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN and  
WINDMERE CORPORATION,

*Respondents.*

ON WRIT OF CERTIORARI TO THE UNITED STATES  
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

**RESPONDENTS' BRIEF**

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## QUESTIONS PRESENTED

1. Did the court of appeals, after reviewing the relevant facts and the objections of Petitioner, a non-party, abuse its discretion in vacating the district court judgments on the joint application of the parties after the case had become moot following an arm's length settlement?

2.\* Did the court of appeals correctly hold that Petitioner, a non-party, had no standing to oppose the joint motion of all parties to vacate the judgments below, where the non-party (i) deliberately chose not to litigate its own claims in the trial court, (ii) was seeking to assert objections of its indemnitee being sued in another court, and (iii) intentionally waited to assert those objections until after the parties' settlement had been fully consummated, the risk of reversal avoided, and Petitioner's financial exposure to its indemnitee in this case ended?

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\* Petitioner has raised an additional question in its brief on the merits not set forth in its petition for writ of certiorari contrary to Sup. Ct. R. 24.1(a). If its new question is permitted, the issue regarding Izumi's lack of standing should be stated as set forth above.



## STATEMENT PURSUANT TO RULE 29.1

The parents, subsidiaries and affiliates of Respondents U.S. Philips Corporation, North American Philips Corporation, N.V. Philips Gloeilampenfabrieken and Windmere Corporation, other than those that are wholly owned, are listed in the Joint Brief of Respondents in Opposition, dated January 28, 1993.

## TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED . . . . .	i
STATEMENT PURSUANT TO RULE 29.1 . . . . .	ii
TABLE OF AUTHORITIES . . . . .	vii
OPINIONS BELOW . . . . .	1
STATEMENT OF THE CASE . . . . .	2
A. The Claims . . . . .	2
B. The First Trial and Appeal . . . . .	3
C. The Second Trial and Appeal . . . . .	4
D. The Settlement . . . . .	6
E. The Illinois Litigation . . . . .	7
SUMMARY OF ARGUMENT . . . . .	7
ARGUMENT	
I. THE COURT OF APPEALS PROPERLY VACATED THE JUDGMENTS BELOW. . . . .	10
A. AFTER WEIGHING THE RELEVANT FACTS AND CIRCUMSTANCES, THE FEDERAL CIRCUIT VACATED THE JUDGMENTS BELOW IN ACCORD WITH ESTABLISHED PRECEDENT OF THIS COURT AND THE AUTHORITY GRANTED BY CONGRESS. . . . .	12

## Page

1. The Decision Below is in Full Accord with Established Precedent of this Court. . . . .	12
2. Izumi's Attempt to Distinguish <i>Munsingwear</i> Is Unavailing and Its Reliance on <i>Karcher</i> Misplaced. . . . .	15
3. Izumi Has Presented No Reason to Overrule Longstanding Precedent. . . . .	17
4. Vacatur of the Judgments Was Within the Broad Authority of 28 U.S.C. § 2106 and Proper Under Fed. R. App. P. 42(b). . .	18
5. The Federal Circuit Found in the Sound Exercise of Its Discretion that Vacatur Was Appropriate. . . . .	20
6. If the Court Determines that the Federal Circuit Erred in Granting Vacatur, the Court's Decision Should Be Applied Only Prospectively. . . . .	27
B. THE PRACTICE OF PERMITTING COURTS TO VACATE JUDGMENTS UPON SETTLEMENT IS WELL ESTABLISHED AND REFLECTS SOUND POLICY; IT SHOULD NOT NOW BE CURTAILED. . . . .	31
1. Vacation of Judgments Upon Settlement Is a Widespread and Longstanding Practice. . . . .	31

## Page

2. Vacation of a Judgment Upon Settlement Promotes the Efficient Use of Judicial Resources and Protects the Interests of Litigants. . . . .	36
3. Vacation of the District Court Judgments Does Not Implicate the Public Interest in <i>Stare Decisis</i> and Preservation of Precedent. . . . .	38
II. THE COURT OF APPEALS PROPERLY DETERMINED THAT IZUMI IS NOT A PARTY AND DOES NOT HAVE STANDING; THAT ISSUE HAS NOT PROPERLY BEEN PRESENTED FOR REVIEW AND THE WRIT SHOULD BE DISMISSED. . . . .	39
CONCLUSION . . . . .	44

## TABLE OF AUTHORITIES

CASES	Pages
<i>Abbott Lab. v. Mead Johnson &amp; Co.</i> , 971 F.2d 6 (7th Cir. 1992) . . . . .	24
<i>Adams v. Galloway</i> , 155 So. 96 (Fla. 1934) . . . . .	33
<i>Allied Chem. Corp. v. Daiflon, Inc.</i> , 449 U.S. 33 (1980) . . . . .	19
<i>Amalgamated Clothing &amp; Textile Workers Union</i> <i>v. J.P. Stevens &amp; Co.</i> , 638 F.2d 7 (2d Cir. 1980) . . . . .	32
<i>American Trucking Ass'ns v. Smith</i> , 496 U.S. 167 (1990) . . . . .	29, 30
<i>Anderson v. Liberty Lobby, Inc.</i> , 477 U.S. 242 (1986) . . . . .	28
<i>Angstrohm Precision, Inc. v. Vishay</i> <i>Intertechnology, Inc.</i> , 567 F. Supp. 537 (E.D.N.Y. 1982) . . . . .	33
<i>Anton v. Lehpamer</i> , 787 F.2d 1141 (7th Cir. 1986) . . . . .	29
<i>Area Dev. Corp. v. Free State Plaza, Inc.</i> , 254 A.2d 355 (Md. 1969) . . . . .	34
<i>Aviation Enters., Inc. v. Orr</i> , 716 F.2d 1403 (D.C. Cir. 1983) . . . . .	32



	Pages
<i>Baltimore &amp; O.R.R. v. Atchison, T. &amp; S.F. Ry.</i> , 383 U.S. 832 (1966) . . . . .	13
<i>Banister Continental Corp. v. Northwest Pipeline Corp.</i> , 724 P.2d 822 (Or. 1986) . . .	34
<i>Banks v. Chicago Grain Trimmers Ass'n</i> , 390 U.S. 459 (1968), cert. granted, 389 U.S. 813 (1967) . . . . .	41, 42
<i>Barnett v. Moss</i> , 106 S.E.2d 60 (Ga. Ct. App. 1958) . . . . .	34
<i>Baxter Healthcare Corp. v. Healthdyne, Inc.</i> , 956 F.2d 226 (11th Cir. 1992) . . . . .	31
<i>Bigpond v. Mutaloke</i> , 105 P.2d 408 (Okla. 1940) . . . . .	34
<i>Board of Educ. of Berea v. Muncy</i> , 239 S.W.2d 471 (Ky. Ct. App. 1951) . . . . .	34
<i>Board of Regents of the Univ. of Tex. Sys. v. New Left Educ. Project</i> , 414 U.S. 807 (1973), vacating 472 F.2d 218 (5th Cir.) . . . . .	16
<i>Bolin v. Hartford Accident &amp; Indem. Co.</i> , 198 So. 2d 489 (La. Ct. App. 1967) . . . . .	34
<i>Bonnett v. United States</i> , No. 91-352-CIV-T-10A, 1991 U.S. Dist. LEXIS 16637 (M.D. Fla. Oct. 29, 1991) . . .	32

	Pages
<i>Breckenridge Hotels Corp. v. Real Estate Research Corp.</i> , 456 F. Supp. 385 (E.D. Mo. 1978) . . . . .	33
<i>Burgwin v. Stewart</i> , 182 So. 297 (Fla. 1938) . . . . .	33
<i>Burrell v. McCray</i> , 426 U.S. 471 (1976) . . . . .	40
<i>Burris v. John Blue Co.</i> , 358 N.E.2d 724 (Ill. App. Ct. 1976) . . . . .	34
<i>Butler v. State</i> , 481 S.W.2d 907 (Tex. Crim. App. 1972) . . .	35
<i>Cabot v. Colorado Charter Lines, Inc.</i> , 776 P.2d 1151 (Colo. Ct. App. 1989) . . . .	33
<i>Callihan v. Monsour</i> , 34 So. 2d 521 (La. Ct. App. 1948) . . . . .	34
<i>Candelaria Indus., Inc. v. Occidental Petroleum Corp.</i> , 662 F. Supp. 1002 (D. Nev. 1984) . . . . .	33
<i>Cardinal Chem. Co. v. Morton Int'l, Inc.</i> , 61 U.S.L.W. 4461 (U.S. May 17, 1993) . . .	7, 12, 23, 24, 25, 28
<i>Castro v. Highlands Ins. Co.</i> , 401 S.W.2d 689 (Tex. Civ. App. 1966) . . . .	35

	Pages
<i>Chambers v. Nasco, Inc.</i> , 111 S. Ct. 2123 (1991) . . . . .	12
<i>Chevron Oil Co. v. Huson</i> , 404 U.S. 97 (1971) . . . . .	28, 29, 30
<i>Chicago &amp; N.W. Ry. v. Atchison, T. &amp; S.F. Ry.</i> , 387 U.S. 326 (1967) . . . . .	13
<i>City Gas Co. of Fla. v. Consolidated Gas Co. of Fla.</i> , 111 S. Ct. 1300 (1991) . . . . .	13, 16, 17
<i>City of Laguna Beach v. Mead Reins. Corp.</i> , 276 Cal. Rptr. 438 (Cal. Ct. App. 1990) . . . .	33
<i>City of Valdez v. Gavora, Inc.</i> , 692 P.2d 959 (Alaska 1984) . . . . .	33
<i>Civil Serv. Bar Ass'n v. City of N.Y.</i> , 474 N.E.2d 587 (N.Y. 1984) . . . . .	34
<i>Clark Equip. Co. v. Lift Parts Mfg. Co.</i> , 972 F.2d 817 (7th Cir. 1992) . . . . .	14
<i>Commodity Futures Trading Comm'n v. Board of Trade</i> , 701 F.2d 653 (7th Cir. 1983) . . . .	14
<i>Commonwealth Lloyd's Ins. Co. v. Thomas</i> , 843 S.W.2d 486 (Tex. 1993) . . . . .	34
<i>Continental Casualty Co. v. Fibreboard Corp.</i> , 113 S. Ct. 399 (1992) . . . . .	13

	Pages
<i>Cullen v. Ellis County Levee Improvement Dist.</i> , 77 S.W.2d 310 (Tex. Civ. App. 1934) . . . . .	35
<i>D'Antonio v. United States</i> , 635 F. Supp. 391 (S.D. Ohio 1983) . . . . .	33
<i>Davis v. City and County of S.F.</i> , 984 F.2d 345 (9th Cir. 1993) . . . . .	14, 31
<i>Deakins v. Monaghan</i> , 484 U.S. 193 (1988) . . . . .	16
<i>DeLorean v. Cork Gully</i> , 118 B.R. 932 (E.D. Mich. 1990) . . . . .	32
<i>Delta Air Lines, Inc. v. McCoy Restaurants, Inc.</i> , 708 F.2d 582 (11th Cir. 1983) . . . . .	32
<i>Dilbeck v. Estep</i> , 145 S.W.2d 218 (Tex. Civ. App. 1940) . . . . .	35
<i>Doe v. Swinson</i> , No. 76-91-A (E.D. Va. Dec. 22, 1976) . . . . .	33
<i>Donaldson v. United States</i> , 400 U.S. 517 (1971) . . . . .	41
<i>Dougherty County Sch. Sys. v. Grossman</i> , 149 S.E.2d 920 (Ga. Ct. App. 1966) . . . . .	34
<i>Douglas v. Donovan</i> , 704 F.2d 1276 (D.C. Cir. 1983) . . . . .	32

## Pages

<i>Dubose v. Harris</i> , 82 F.R.D. 582 (D. Conn. 1979) . . . . .	13
<i>Duke v. Sears, Roebuck &amp; Co.</i> , 446 S.W.2d 886 (Tex. Civ. App. 1969) . . . .	9, 35
<i>Dunn v. Blue Ridge Tel. Co.</i> , 888 F.2d 731 (11th Cir. 1989) . . . . .	32
<i>E. Fredericks, Inc. v. Felton Beauty Supply Co.</i> , 9 S.E.2d 198 (Ga. Ct. App. 1940) . . . . .	34
<i>Edelman v. Jordan</i> , 415 U.S. 651 (1974) . . . . .	13
<i>Elchelberger v. Orr</i> , 392 S.W.2d 474 (Tex. Civ. App. 1965) . . . .	35
<i>Ellis v. Flying Tiger Corp.</i> , 504 F.2d 1004 (7th Cir. 1972) . . . . .	32
<i>In re Estate of Williams</i> , 216 N.W.2d 568 (Iowa 1974) . . . . .	34
<i>Farmland Dairies v. Commissioner of N.Y. State</i> <i>Dep't of Agric. and Mkts.</i> , 847 F.2d 1038 (2d Cir. 1988) . . . . .	43
<i>Federal Data Corp. v. SMS Data Prods.</i> <i>Group, Inc.</i> , 819 F.2d 277 (Fed. Cir. 1987) . . . . .	27, 32, 37
<i>Food for Health Co. v. 3839 Joint Venture</i> , 628 P.2d 986 (Ariz. Ct. App. 1981) . . . . .	33

## Pages

<i>Forman v. United States</i> , 361 U.S. 416 (1960) . . . . .	19
<i>Fowler v. Associated Oil Co.</i> , 79 P.2d 728 (Cal. 1938) . . . . .	33
<i>In re Fryar</i> , 113 B.R. 317 (W.D. Tex. 1989) . . . . .	32
<i>In re Garner's Estate</i> , 148 P.2d 784 (Okla. 1944) . . . . .	34
<i>General Motors Acceptance Corp. v. Carter</i> , 361 S.E.2d 620 (S.C. 1987) . . . . .	34
<i>Goodman v. Heublein, Inc.</i> , 682 F.2d 44 (2d Cir. 1944) . . . . .	42
<i>Greater Iowa Corp. v. McLendon</i> , 378 F.2d 783 (8th Cir. 1967) . . . . .	13
<i>Grochal v. Aeration Processes, Inc.</i> , 812 F.2d 745 (D.C. Cir. 1987) . . . . .	32
<i>GTE North Incorp. v. First State Ins. Co.</i> , No. 88 C 4376, 1990 U.S. Dist. LEXIS 15413 (N.D. Ill. Oct. 25, 1990) . . . .	34
<i>Hales v. Worthy</i> , 43 Ga. 178 (1871) . . . . .	34
<i>Harbison-Fisher Mfg. Co. v. Mohawk</i> <i>Data Sciences Corp.</i> , 840 S.W.2d 383 (Tex. 1992) . . . . .	35



## Pages

<i>Harrell v. C.C. Mayes Co.</i> , 99 Lab. Cas. (CCH) ¶ 10, 725 (E.D. Tenn. 1983) . . . . .	33
<i>Harrison W. Corp. v. United States</i> , 792 F.2d 1391 (9th Cir. 1986) . . . . .	14
<i>Hauser v. Krupp Steel Producers, Inc.</i> , 761 F.2d 204 (5th Cir. 1985) . . . . .	22
<i>Haynes v. United States</i> , 390 U.S. 85 (1968) . . . . .	19
<i>Heitmuller v. Stokes</i> , 256 U.S. 359 (1921) . . . . .	12
<i>Hendrickson v. Secretary of Health and Human Servs.</i> , 774 F.2d 1355 (8th Cir. 1985) . . . . .	32
<i>Henry v. St. John's Hosp.</i> , 563 N.E.2d 410 (Ill. 1990), cert. denied, 111 S. Ct. 1623 (1991) . . . . .	34
<i>Hewitt v. Helms</i> , 482 U.S. 755 (1987) . . . . .	36
<i>Hi-Hat Restaurant, Inc. v. INS</i> , 584 F. Supp. 1272 (D. Or. 1984) . . . . .	33
<i>Hilton v. South Carolina Pub. Rys. Comm'n</i> , 112 S. Ct. 560 (1991) . . . . .	18
<i>Home Indem. Co. v. Farm House Foods Corp.</i> , 770 F. Supp. 1348 (E.D. Wis. 1991) . . . . .	39

## Pages

<i>Howell v. Evans</i> , 931 F.2d 711 (11th Cir. 1991) . . . . .	31
<i>Hunter v. Ohio ex rel. Miller</i> , 396 U.S. 879 (1969) . . . . .	41, 42
<i>Hurd v. Illinois Bell Tel. Co.</i> , 234 F.2d 942 (7th Cir.), cert. denied, 352 U.S. 918 (1956) . . . . .	42
<i>Inland Corp. v. Buckeye Tank Terminals, Inc.</i> , No. 78-3062/3 (6th Cir. May 15, 1980) . . . . .	32
<i>International Union, UAW, Local 283 v. Scofield</i> , 382 U.S. 205 (1965) . . . . .	40, 41, 42
<i>Israel Discount Bank Ltd. v. Entin</i> , 951 F.2d 311 (11th Cir. 1992) . . . . .	31
<i>Jacobson v. John Hancock Mut. Life Ins. Co.</i> , 662 F. Supp. 1103 (D. Conn. 1987) . . . . .	32
<i>Jessee v. Amoco Oil Co.</i> , 594 N.E.2d 1210 (Ill. App. Ct. 1992) . . . . .	34
<i>Karcher v. May</i> , 484 U.S. 72 (1987) . . . . .	17
<i>Kennedy v. Block</i> , 784 F.2d 1220 (4th Cir. 1986) . . . . .	32
<i>Kidder, Peabody &amp; Co. v. Lutheran Bhd.</i> , 840 S.W.2d 384 (Tex. 1992) . . . . .	35

	Pages
<i>Kimbrough v. Bowman Transp., Inc.</i> , 929 F.2d 599 (11th Cir. 1991) . . . . .	31
<i>Kliebert v. Upjohn Co.</i> , 947 F.2d 736 (5th Cir. 1991) . . . . .	31
<i>Koone v. Montgomery</i> , 114 S.W.2d 713 (Mo. Ct. App. 1938) . . . . .	34
<i>L.P. Gunson &amp; Co. v. Merritt</i> , 100 So. 2d 191 (Fla. Dist. Ct. App. 1958) . . . . .	33
<i>Laber v. Merit Sys. Protection Bd.</i> , 982 F.2d 519 (Fed. Cir. 1992) . . . . .	31
<i>Ladner v. Ladner</i> , 97 So. 2d 238 (Miss. 1957) . . . . .	34
<i>Lake Coal Co. v. Roberts &amp; Schaefer Co.</i> , 474 U.S. 120 (1985) . . . . .	13
<i>Lee v. A.C. &amp; S., Inc.</i> , 538 A.2d 1113 (Del. 1988) . . . . .	33
<i>Long Island Lighting Co. v. Cuomo</i> , 888 F.2d 230 (2d Cir. 1989) . . . . .	17, 32
<i>Lowery v. WMC-TV</i> , 661 F. Supp. 65 (W.D. Tenn. 1987) . . . . .	32
<i>Managed Funds, Inc. v. Brouk</i> , 369 U.S. 424 (1962) . . . . .	13

	Pages
<i>Mandel v. Bradley</i> , 432 U.S. 173 (1977) . . . . .	13, 28
<i>Martin v. Mutaloke</i> , 105 P.2d 413 (Okla. 1940) . . . . .	34
<i>Maryland Casualty Co. v. Brakebill</i> , 130 S.W.2d 306 (Tex. Civ. App. 1939) . . . . .	35
<i>McGahee v. Northern Propane Gas Co.</i> , 858 F.2d 1487 (11th Cir. 1988), <i>cert. denied</i> , 490 U.S. 1084 (1989) . . . . .	4, 5
<i>McKenzie v. Chastain</i> , 184 S.E. 276 (Ga. 1936) . . . . .	34
<i>In re Memorial Hosp. of Iowa County, Inc.</i> , 862 F.2d 1299 (7th Cir. 1988) . . . . .	14, 36, 37, 39
<i>In re Miller's Estate</i> , 197 So. 791 (Fla. 1940) . . . . .	33
<i>Mineo v. Port Auth. of N.Y. and N.J.</i> , 779 F.2d 939 (3d Cir. 1985), <i>cert. denied</i> , 478 U.S. 1005 (1986) . . . . .	30
<i>Montana v. United States</i> , 440 U.S. 147 (1979) . . . . .	23
<i>Morgan v. Stimson Lumber Co.</i> , 618 P.2d 970 (Or. Ct. App. 1980) . . . . .	34

	Pages
<i>Mortgage Corp. of America v. Inland Constr. Co.</i> , 463 So. 2d 1196 (Fla. Dist. Ct. App. 1985) . . . . .	33
<i>Mur-Maid Enters., Inc. v. Townsend</i> , 951 F.2d 297 (11th Cir. 1991) . . . . .	32
<i>NAACP v. New York</i> , 413 U.S. 345 (1973) . . . . .	40
<i>Nahigian Bros., Inc. v. Rug Serv., Inc.</i> , 12 N.E.2d 42 (Ill. App. Ct. 1937) . . . . .	34
<i>National Hockey League v. Metropolitan Hockey Club, Inc.</i> , 427 U.S. 639 (1976) . . .	12
<i>National Union Fire Ins. Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) . . . . .	19
<i>Neary v. Regents of the Univ. of Cal.</i> , 834 P.2d 119 (Cal. 1992) . . . . .	33, 36, 37
<i>Nestle Co. v. Chester's Mkt., Inc.</i> , 756 F.2d 280 (2d Cir. 1985) . . . . .	26, 27, 32, 37
<i>New York v. Uplinger</i> , 467 U.S. 246 (1984) . . . . .	40
<i>Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.</i> , 458 U.S. 50 (1982) . . . . .	30

	Pages
<i>Ogle v. Guardsman Ins. Co.</i> , 701 S.W.2d 469 (Mo. Ct. App. 1985) . . . . .	34
<i>Oracare DPO, Inc. v. Merin</i> , 972 F.2d 519 (3d Cir. 1992) . . . . .	19, 31
<i>Padgett v. Padgett</i> , 13 S.E.2d 40 (Ga. Ct. App. 1941) . . . . .	34
<i>Parklane Hosiery Co. v. Shore</i> , 439 U.S. 322 (1979) . . . . .	22, 23, 41
<i>Patterson v. McLean Credit Union</i> , 491 U.S. 164 (1989) . . . . .	17
<i>In re Penn Cent. Transp. Co.</i> , 630 F.2d 183 (3d Cir. 1980) . . . . .	19
<i>Pierce v. Abrams</i> , 455 U.S. 1010 (1982) . . . . .	12
<i>Pierce v. Ross</i> , 455 U.S. 1010 (1982) . . . . .	12
<i>Pierce v. Underwood</i> , 487 U.S. 552 (1988) . . . . .	12, 13
<i>Polunsky v. Polunsky</i> , 152 S.W.2d 932 (Tex. Civ. App. 1941) . . . .	35
<i>Preston Oil Co. v. Transcontinental Gas Pipe Line Corp.</i> , 594 So. 2d 908 (La. Ct. App. 1991) . . . . .	34



	Pages
<i>Public Citizen v. Third Court of Appeals</i> , 846 S.W.2d 284 (Tex. 1993) . . . . .	34
<i>Purcella v. United States</i> , 968 F.2d 10 (10th Cir. 1992) . . . . .	20, 31
<i>Raborn v. Davis</i> , 795 S.W.2d 716 (Tex. 1990) . . . . .	35
<i>Ray v. Phillips Petroleum Co.</i> , 148 P.2d 784 (Okla. 1944) . . . . .	34
<i>Reliance Ins. Co. v. Kent Corp.</i> , 909 F.2d 424 (11th Cir. 1990) . . . . .	32
<i>Resolution Trust Corp. v. Tetco, Inc.</i> , No. 91-5612, 1992 WL 437650 (5th Cir. Apr. 22, 1992) . . . . .	31
<i>Rice v. Sioux City Memorial Park Cemetery, Inc.</i> , 349 U.S. 70 (1955) . . . . .	40
<i>Richardson v. Ramirez</i> , 418 U.S. 24 (1974) . . . . .	14
<i>Ringsby Truck Lines, Inc. v. Western Conf. of Teamsters</i> , 686 F.2d 720 (9th Cir. 1982) . . .	14
<i>Robinson v. Croker</i> , 158 So. 123 (Fla. 1934) . . . . .	33
<i>Rodriguez v. Meba Pension Trust</i> , 978 F.2d 1334 (4th Cir. 1992) . . . . .	31

	Pages
<i>Rogge v. Cafiero</i> , 134 So. 909 (La. Ct. App. 1931) . . . . .	34
<i>Rothenberg v. Connecticut Mutual Life Ins. Co.</i> , 161 So. 2d 875 (Fla. Dist. Ct. App. 1964) . .	33
<i>Ruben v. American &amp; Foreign Ins. Co.</i> , 592 N.Y.S.2d 167 (N.Y. App. Div. 1992) . .	34
<i>St. Charles Parish Sch. Bd. v. GAF Corp.</i> , 512 So. 2d 1165 (La. 1987) . . . . .	34
<i>Saint Francis College v. Al-Khazraji</i> , 481 U.S. 604 (1987) . . . . .	29, 30
<i>St. Louis, B. &amp; M. Ry. v. Texas Mexican Ry.</i> , 212 S.W.2d 502 (Tex. Civ. App. 1948) . . . .	35
<i>St. Paul Fire and Marine Ins. Co. v. Hundley</i> , 354 F. Supp. 655 (E.D. Ark. 1973) . . . . .	33
<i>Salazar v. State</i> , 486 S.W.2d 323 (Tex. Crim. App. 1972) . . .	35
<i>San Jacinto Rice Co. v. Hamman</i> , 247 S.W. 500 (Tex. Com. App. 1923) . . . .	35
<i>Sanson v. Gonzales</i> , 688 P.2d 641 (Ariz. 1984) . . . . .	33
<i>Schering Corp. v. Schering Aktiengesellschaft</i> , 709 F. Supp. 529 (D.N.J. 1988) . . . . .	32
<i>Schlitz v. Schlitz</i> , 138 So. 2d 806 (Fla. Dist. Ct. App. 1962) . .	33

	Pages
<i>Scott v. Iron Workers Local 118</i> , No. Civ. 588297 LKK (E.D. Cal. June 1, 1989) . . . . .	14
<i>In re Shelby Motel Group, Inc.</i> , 925 F.2d 1583 (11th Cir. 1991) . . . . .	32
<i>Showtime/The Movie Channel, Inc. v. Covered Bridge Condominium Ass'n</i> , 895 F.2d 711 (11th Cir. 1990) . . . . .	19, 20, 32
<i>Smith Int'l, Inc. v. Hughes Tool Co.</i> , 839 F.2d 663 (Fed. Cir. 1988) . . . . .	25, 32
<i>Smith v. Plains Petroleum Corp.</i> , 25 P.2d 323 (Okla. 1933) . . . . .	34
<i>Sobocinski v. Freedom of Info. Comm'n</i> , 566 A.2d 703 (Conn. 1989) . . . . .	33
<i>Societe Nationale Industrielle Aerospatiale v. United States Dist. Court for the Dist. of Alaska</i> , 823 F.2d 382 (9th Cir. 1987) . . . . .	32
<i>Southern Underwriters v. Evans</i> , 112 S.W.2d 542 (Tex. Civ. App. 1938) . . . .	35
<i>Southern Ry. v. Seaboard Allied Milling Corp.</i> , 442 U.S. 444 (1979) . . . . .	14
<i>Southwest Sav. and Loan Ass'n v. Mason</i> , 751 P.2d 526 (Ariz. 1988) . . . . .	33

	Pages
<i>Standefer v. United States</i> , 447 U.S. 10 (1980) . . . . .	25
<i>State ex rel. Meredith v. Cone</i> , 177 So. 545 (Fla. 1937) . . . . .	33
<i>Stewart v. Southern Ry.</i> , 315 U.S. 784 (1942), vacating as moot 315 U.S. 283 . . . . .	13
<i>Stokes-Grimes Grocery Co. v. Hill</i> , 97 S.E. 469 (N.C. 1918) . . . . .	34
<i>Stonewall Ins. Co. v. City of Palos Verdes Estates</i> , 9 Cal. Rptr. 2d 663 (Cal. Ct. App. 1992) . . . . .	33
<i>Streiff Jewelry Co. v. United Parcel Serv.</i> , 679 F. Supp. 7 (S.D. Fla. 1988) . . . . .	32
<i>Studio 1712, Inc. v. Etna Prods. Co.</i> , 968 F.2d 10 (10th Cir. 1992) . . . . .	31
<i>Superior Oil Co. v. Blain</i> , 141 S.W.2d 428 (Tex. Civ. App. 1940) . . . .	35
<i>Swanson Broadcasting, Inc. v. Clear Channel Communications, Inc.</i> , 762 S.W.2d 360 (Tex. Ct. App. 1988) . . . . .	35
<i>The Monrosa v. Carbon Black Export, Inc.</i> , 359 U.S. 180 (1959) . . . . .	40

	Pages
<i>Thompson v. Stephenson</i> , 332 N.W.2d 341 (Iowa 1983) . . . . .	34
<i>Tosco Corp. v. Hodel</i> , 826 F.2d 948 (10th Cir. 1987) . . . . .	32
<i>Township of River Vale v. Harris</i> , 444 F. Supp. 90 (D.D.C. 1978) . . . . .	33
<i>Trailer Marine Transp. Corp. v. Philadelphia Export Consolidations, Inc.</i> , No. 88-4634, 1991 U.S. Dist. LEXIS 5318 (D.N.J. Mar. 27, 1991) . . . . .	32
<i>Triax Co. v. TRW, Inc.</i> , 724 F.2d 1224 (6th Cir. 1984) . . . . .	42, 43
<i>Trudo v. County of Pueblo</i> , No. 91-1253, 1992 U.S. App. LEXIS 19164 (10th Cir. Aug. 11, 1992) . . . . .	31
<i>Tully v. Griffin, Inc.</i> , 429 U.S. 68 (1976) . . . . .	13
<i>Two Lincoln Square Assocs. v. New York City Conciliation and Appeals Bd.</i> , 427 N.Y.S.2d 424 (N.Y. App. Div. 1980) . .	34
<i>Tyson v. Levinson</i> , 56 Empl. Prac. Dec. (CCH) ¶ 40,622 (D.D.C. 1991) . . . . .	32
<i>U.S. Philips Corp. v. Windmere Corp.</i> , 1992-1 Trade Cas. (CCH) ¶ 69,778 (S.D. Fla. 1991) . . . . .	38

	Pages
<i>United Employers Casualty Co. v. Teer</i> , 142 S.W.2d 933 (Tex. Civ. App. 1940) . . . .	35
<i>United Servs. Auto. Ass'n v. Lederle</i> , 400 S.W.2d 749 (Tex. 1966) . . . . .	35
<i>United States ex rel. Toth v. Quarles</i> , 350 U.S. 11 (1955) . . . . .	25
<i>United States v. American Tel. &amp; Tel. Co.</i> , 552 F. Supp. 131 (D.D.C. 1982), <i>aff'd sub nom.</i> , <i>Maryland v. United States</i> , 460 U.S. 1001 (1983) . . . . .	33
<i>United States v. Atchison, T. &amp; S.F. Ry.</i> , 384 U.S. 888 (1966) . . . . .	13
<i>United States v. Bursey</i> , 515 F.2d 1228 (5th Cir. 1974) . . . . .	42
<i>United States v. Hartec Enters., Inc.</i> , 130 B.R. 929 (W.D. Tex. 1991) . . . . .	32
<i>United States v. Hasting</i> , 461 U.S. 499 (1983) . . . . .	28
<i>United States v. Leiter Minerals, Inc.</i> , 381 U.S. 413 (1965) . . . . .	13
<i>United States v. Little Lake Misere Land Co.</i> , 412 U.S. 580 (1973) . . . . .	13
<i>United States v. Munsingwear, Inc.</i> , 340 U.S. 36 (1950) . . . . .	<i>passim</i>



	Pages
<i>United States v. Queen Mountain Mining, Inc.</i> , 865 F.2d 1269 (6th Cir. 1989) . . . . .	32
<i>Universal City Studios, Inc. v. Nintendo Co.</i> , 578 F. Supp. 911 (S.D.N.Y. 1983), <i>aff'd</i> , 746 F.2d 112 (2d Cir. 1984) . . . . .	33
<i>Webster v. Reproductive Health Servs.</i> , 492 U.S. 490 (1989) . . . . .	16
<i>Welsch v. Gardebring</i> , 667 F. Supp. 1284 (D. Minn. 1987) . . . . .	33
<i>Wiley v. Western Airlines, Inc.</i> , Nos. 89-16141, 89-16142, 1991 U.S. App. LEXIS 8239 (9th Cir. Apr. 15, 1991) . . . . .	32

#### STATUTES AND RULES

28 U.S.C. § 1254(1) . . . . .	40
28 U.S.C. § 2106 . . . . .	<i>passim</i>
Sup. Ct. R. 14.1(a) . . . . .	40
Sup. Ct. R. 24.1(a) . . . . .	i, 40
Fed. R. App. P. 42(b) . . . . .	<i>passim</i>
Fed. R. Civ. P. 24(a)(2) . . . . .	41, 42

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IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1992

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN  
PHILIPS CORPORATION, N.V. PHILIPS  
GLOEILAMPENFABRIEKEN and WINDMERE  
CORPORATION,  
*Respondents.*

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ON WRIT OF CERTIORARI TO THE UNITED  
STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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**RESPONDENTS' BRIEF**

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**OPINIONS BELOW**

The opinion of the court of appeals is reported at 971 F.2d 728 (Pet. A1).<sup>1</sup> The judgments of the District Court (Pet. A7-A8; J.A. 126a) entered after the second trial are unreported.

The second trial resulting in the judgments at issue followed an opinion of the court of appeals in 1988, reported at 861 F.2d 695, which reversed the district court's grant of a directed verdict, reported at 680 F. Supp. 361, dismissing Respondent Windmere Corporation's monopolization counter-

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<sup>1</sup> Petitioner's Appendix, hereafter "Pet.". Respondents' Appendix, hereafter "Res.". Joint Appendix, hereafter "J.A.". Petitioner's Brief on the Merits, hereafter "Pet. Br.".

claim. This Court denied a writ of certiorari at 490 U.S. 1068.

### STATEMENT OF THE CASE

U.S. Philips Corporation, North American Philips Corporation and their parent corporation, N.V. Philips Gloeilampenfabrieken (collectively "Philips") and Windmere Corporation ("Windmere"), the only parties to this action, entered into an agreement in May 1992 to settle this case and to release all claims between them (the "Settlement") (J.A. 158a-60a). Having thereby completely mooted an appeal that had been fully briefed, the parties then moved the court of appeals to vacate the district court judgments.

Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"), Windmere's indemnitor but not a party to the trial which resulted in the judgments at issue, sought to intervene and object to the parties' motion. Although the court of appeals denied leave to intervene, the court considered the merits of Izumi's argument and ruled that the parties were entitled to vacatur under the circumstances and in light of its own prior decisions and those of this Court.

Izumi's petition for certiorari was granted on February 22, 1993. The single question Izumi presented did not raise Izumi's standing, and no question was presented regarding the lower court's denial of Izumi's motion to intervene.

#### A. The Claims

In October 1984, Philips brought suit in the United States District Court for the Southern District of Florida, alleging (1) that Windmere had engaged in unfair competition in violation of the Lanham Act by selling electric shavers manufactured by Izumi that copied the distinctive appearance of Philips' NORELCO® shavers, and (2) that Windmere and Izumi had infringed a valid Philips' patent (J.A. 12a).<sup>2</sup>

<sup>2</sup> U.S. Philips is the owner of the patent in suit and was the only plaintiff on the patent infringement claim. North American Philips (continued...)

Windmere asserted numerous antitrust and state law counterclaims (J.A. 1a). Izumi filed no counterclaims in Florida, but chose to assert counterclaims that were identical to Windmere's in a subsequent action between Philips and Izumi still pending in Illinois. *See infra*, p. 7. Thus, Izumi's involvement as a party in Florida was solely as a defendant on the patent infringement claim — a claim finally adjudicated at the first trial.

#### B. The First Trial and Appeal

The claims and counterclaims were tried before a jury in April 1986. At the close of all of the evidence, the district court granted Philips' motion for a directed verdict on Windmere's monopolization counterclaim — other Windmere counterclaims having been dismissed on summary judgment or at the close of Windmere's evidence (J.A. 21a). Philips' claims were submitted to the jury, which found for Windmere on the unfair competition claim and for Philips on the patent infringement claim (J.A. 21a-22a).

The district court entered a permanent injunction on U.S. Philips' patent infringement claim (J.A. 23a), and awarded Philips damages (J.A. 21a). Neither Windmere nor Izumi appealed the patent award or injunction, although Windmere appealed the judgment dismissing its monopolization claim (J.A. 4a).

While Windmere's appeal was pending, the district court awarded Philips a new trial on its unfair competition claim because of the failure to produce documents requested by Philips (J.A. 41). The district court ruled that "Izumi's attorneys, knowing that the [Izumi design] patent had been applied for and granted, intentionally withheld that information from Philips" (J.A. 33a). With respect to the significance of the withheld documents, the court stated:

<sup>2</sup>(...continued)

Corporation was the only plaintiff on the unfair competition (trade dress) claim (J.A. 15a-16a). Petitioner has confused which party was a plaintiff on which claim (Pet. Br. 2).



Izumi took a strong position [at trial] that its razors' design were [sic] dictated by functional necessity, not ornamental reasons. However, in the application for a design patent, Mr. Izumi stated that the design was a factor of ornamentation, not function. Izumi's failure to produce an important document that related to so significant an issue in the trial deprived Philips of a full and fair trial of the merits of the case. (J.A. 35a-36a).

On Windmere's appeal of the directed verdict dismissing its monopolization claim, the Federal Circuit, in a three to two decision, reversed and remanded for a new trial. 861 F.2d 695 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989). The majority found that a monopolization claim could be proved by evidence that a predominant firm in a market with substantial entry barriers "slashed its prices" in response to the entry of a new competitor, and that Windmere had presented sufficient evidence of predatory pricing to preclude entry of a directed verdict. The court of appeals rejected Philips' petition for rehearing, which argued that the court had failed to follow the governing law announced a few days before the Federal Circuit's decision in *McGahee v. Northern Propane Gas Co.*, 858 F.2d 1487, 1496 (11th Cir. 1988) (price above total cost is lawful as a matter of law), *cert. denied*, 490 U.S. 1084 (1989). This Court denied Philips' petition for a writ of certiorari. 490 U.S. 1068 (1989).

### C. The Second Trial and Appeal

The second jury trial on Philips' unfair competition claim against Windmere and Windmere's monopolization counterclaim against Philips commenced in April 1990. Izumi did not appear as a party to either claim, although its counsel at the first trial appeared in the second trial as co-counsel for Windmere. Indeed, Izumi insisted that it was not a party to the second trial, refused to provide discovery as a party, and its counsel struck Izumi's name as a party in the proposed pretrial order (J.A. 99a).

At the conclusion of the second trial, the jury found in favor of Windmere on the unfair competition claim. That

verdict was entered after the admission, over objection, of Izumi's design patents which Philips argued were irrelevant and confusing to the jury. The design patents were admitted, although the district court acknowledged that its ruling ran an "enormous risk of misleading or confusing this jury as to what their task is" (Joint Appendix to Appeal from Florida Judgments 293-94; *see also id.* at 274, 278-90, 295-96). Philips' appeal was based on this ground, as well as Philips' position that the district court erred in instructing the jury — contrary to the rulings in a majority of circuits — that Philips bore the burden of proving that its design was non-functional.

The jury also found in Windmere's favor on the antitrust counterclaim. The district court — faced with conflicting statements concerning predatory pricing from the Federal Circuit (which had ordered the second trial) and from the Eleventh Circuit (which announced controlling law in *McGahee*) — rejected Philips' claim of resulting jury confusion, and charged the jury that monopolization could be found if Philips priced below cost *or*, regardless of cost, if Philips, the largest seller of rotary shavers, "slashed prices" to eliminate Windmere as a competitor in a market with high barriers to entry.<sup>3</sup> Philips contended that the evidence established that Philips' electric shavers (with rotating blades) competed vigorously with other electric shavers marketed by, *e.g.*, Remington and Braun (with oscillating blades). Nevertheless, the district court also permitted the jury to find that shavers with rotating blades constituted a separate

<sup>3</sup> Philips also argued on appeal, *inter alia*, that as a matter of law the judgment should be reversed because (1) Windmere's evidence that Philips sold two of its many models below total cost was not supported by any facts, was internally inconsistent, and was belied by any reasonable principle of accounting, (2) Windmere's cost evidence concerned only two of Philips' many models, and thus, Windmere failed to prove predatory pricing on Philips' entire product line as required by law, and (3) Windmere incorrectly ignored N.V. Philips manufacturing profits, and therefore, failed to prove that Philips, both parent and subsidiary, priced below cost. Windmere countered that the verdict below was well founded in fact and law.

antitrust market. The jury awarded Windmere damages of \$29,881,419, and judgment was entered for \$89,664,257 (after trebling) plus attorneys' fees and interest (Pet. A7).

Philips appealed the unfair competition and antitrust judgments to the Court of Appeals for the Federal Circuit. The parties fully briefed the appeal and were awaiting an argument date when a settlement was achieved.

#### D. The Settlement

Philips and Windmere entered into a settlement of all outstanding claims and exchanged general releases in May 1992. Philips paid Windmere \$57 million, which represented approximately \$.50 on the dollar given the value of the antitrust judgment at the time of settlement. Pursuant to the terms of the settlement, reached after long negotiations, Philips dropped its appeal and the parties jointly moved to vacate both judgments (Pet. A17-A18).

Izumi was aware in March 1992, before the settlement was consummated, that vacatur of the judgments was being discussed when Izumi's lawyer withdrew his representation of Windmere because of the perceived conflict between Windmere's and Izumi's interests with respect to the judgments. Notwithstanding its knowledge, Izumi communicated no objections to Philips and did not seek to intervene in the court of appeals until *after* the settlement had been consummated and Philips had given up its right to seek reversal of the judgments (J.A. 8a-9a).<sup>4</sup> Had Izumi raised its objection before the settlement was consummated, Philips could have continued its appeal, perhaps overturning the judgments, and in doing so, not only secure a new trial against Windmere in Florida, but also establish law favorable to Philips in the Illinois litigation.

<sup>4</sup> Petitioner's brief asserts that Izumi "made clear" that Izumi opposed vacatur and that its "protests carried little force with Windmere or Philips" (Pet. Br. 6-7 n.2). Izumi's protests were not directed to and never reached Philips until after Philips withdrew its appeal pursuant to the terms of the settlement, and there is nothing in the record to support any claim to the contrary (J.A. 167a).

#### E. The Illinois Litigation

Izumi opposed vacating the judgments because it hoped to use them in an action that had been brought by U.S. Philips in the District Court for the Northern District of Illinois against Izumi and its customer, Sears, Roebuck & Co. ("Sears") for patent infringement (Pet. A23). Izumi had responded by filing an antitrust counterclaim (identical to that previously filed by Windmere in Florida), joining N.A. Philips and N.V. Philips as third party defendants. N.A. Philips, having been brought into the action by Izumi, then filed an unfair competition claim against Sears (Pet. A15, A23).

In pretrial rulings, the court dismissed Izumi's antitrust counterclaims for its failure to assert them as compulsory counterclaims in the prior Florida action (Pet. A44-A45), and the court thereafter denied Izumi's three separate motions for reconsideration. The court initially dismissed Philips' unfair competition claim against Sears on collateral estoppel grounds following the Florida verdict in favor of Windmere, but subsequently reinstated the claim after the court of appeals vacated that judgment. The district court then granted Izumi's and Sears' motion to certify both rulings for appeal, and an appeal from the Illinois action is presently pending in the Court of Appeals for the Federal Circuit. At Izumi's request, that appeal has been stayed pending a decision in this case.

#### SUMMARY OF ARGUMENT

As recently as May 17, 1993, this Court unanimously reaffirmed that it is appropriate for the courts of appeals to vacate judgments when, as here, circumstances moot a case while on appeal. See *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 61 U.S.L.W. 4461, 4466 (U.S. May 17, 1993) ("If, before the Court [of Appeals] had decided the case, either party had advised it of a material change in circumstances that entirely terminated their controversy, it would have been proper either to dismiss the appeal or to vacate the entire judgment of the District Court. Cf. *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39 (1950).") (dictum).



Here, after the appeal had been fully briefed, the only parties to the case settled all their disputes and exchanged general releases. The case and the entire controversy before the court of appeals was thereby mooted. In the sound exercise of its discretion, the court of appeals granted the motion of all parties to vacate the judgments.

The argument presented by Izumi — that the interests of a non-party in using the judgments in another action should prevail over the rights of the parties — does not in any respect justify abandoning the longstanding rule favoring vacatur when mootness arises from a complete settlement, or suggest that the court of appeals abused its discretion under the circumstances here. Vacatur following settlement has long been recognized as appropriate by this Court, the Federal Circuit and other federal and state courts, and falls squarely within the discretion granted by Congress to courts of appellate jurisdiction. 28 U.S.C. § 2106.

Vacatur of a judgment should be available particularly where, as here, the parties after a jury trial recognize by their settlement that the validity of the unreviewed judgments is uncertain. To impose on the losing party who settles before appellate review the full collateral consequences of such a final judgment is inequitable and can only force litigants to pursue such cases to the appellate end. No non-party "lien" should attach to an unreviewed judgment entered on a jury verdict that precludes the actual parties to the litigation from ending it on terms the appellate court finds just.

While Izumi appears to agree that courts have discretion to vacate judgments after settlement, it quibbles that judgments should not be "routinely" vacated, and complains that the court below improperly exercised its discretion in vacating *these* judgments. Izumi's argument that the court of appeals abused its discretion is based solely on the fact that Izumi and Sears (appearing here solely as an "amicus") wish to use the Florida judgments collaterally in another action. This proposed exception to the general rule favoring vacatur, however, finds no support in the decisions of this Court, the Federal Circuit, or in legislative pronouncements.

Furthermore, the circumstances of this case amply demonstrate that creating the exception Izumi advocates would injure the very interests promoted by the vacatur rule: vacatur here preserved judicial resources by forever ending a complicated appeal, avoiding a likely petition to this Court and a possible retrial; it promoted justice to Philips both by following settled law relied on by Philips when it gave up its right to appeal and by preventing the uncertain and unreviewed judgments from having collateral effects; it promoted justice to Windmere by allowing it to settle its dispute and end its involvement in this litigation while accepting what it believed to be appropriate payment in satisfaction of the judgments; and finally, vacatur did no harm to the public interest in *stare decisis* since only two unreported judgments were involved — not any judicial opinion which might serve to guide the courts or future litigants. Well aware of all these facts, controlling law, and Izumi's contrary contentions, the court of appeals properly exercised its discretion in favor of the parties to the case before it.

As the court of appeals ruled, the equities here favor Philips and Windmere. Rather than actively participating to protect its alleged interests, Izumi avoided participation at trial or in the appeal. Izumi appeared only when it thought it had irrevocably gained from the settlement — by Philips foregoing its right to appeal a judgment in favor of Izumi's indemnitee — and then sought to upset a term of that settlement that was critical to Philips by opposing vacatur.

The Federal Circuit also properly exercised its discretion to deny Izumi standing to object. Izumi was not a party to any claim at issue and was not the party that sought to use the unfair competition judgment collaterally in Illinois. That party, Sears, chose not to intervene.<sup>5</sup> Izumi also failed to assert whatever rights it may have had until the appeal had

<sup>5</sup> Sears — whose interest Izumi purports to assert — itself obtained vacatur of a judgment pursuant to settlement when this result suited Sears' needs. See *Duke v. Sears, Roebuck & Co.*, 446 S.W.2d 886, 887 (Tex. Civ. App. 1969).



been withdrawn. Because the court of appeals determined that Izumi had no standing to appear, Izumi, a non-party, has no right to petition for certiorari on the issue it did, and the writ should be dismissed for that reason alone. *See infra*, pp. 39-44.

The facts of this case, and Izumi's conduct in particular, demonstrate the wisdom of permitting vacatur as ordered by the Federal Circuit.

## ARGUMENT

### I.

#### THE COURT OF APPEALS PROPERLY VACATED THE JUDGMENTS BELOW.

Izumi apparently concedes that whether a judgment should be vacated on settlement is left to the sound discretion of the lower court (Pet. Br. 35). Izumi could not argue otherwise given this Court's decisions on the issue and the discretion granted appellate courts under both 28 U.S.C. § 2106 and Fed. R. App. P. 42(b). Taken together, these authorities confirm that judgments generally should be vacated when an appeal becomes moot. There are no facts here — and none are argued by Izumi — that would justify denial of vacatur.

Izumi contends, however, that the court of appeals did not exercise its discretion because "[t]he practice of the Federal Circuit is to routinely grant a motion" to vacate (Pet. Br. 9), that the court of appeals vacated the judgments "merely because [the] parties had settled" (Pet. Br. 8), and that the Federal Circuit has an "automatic vacatur rule" (Pet. Br. 10). Izumi's argument is based on a distorted notion of what the Federal Circuit did.

Contrary to Izumi's mischaracterizations, the Federal Circuit did not treat the matter as "routine." The court carefully weighed the relevant facts and circumstances before it determined that vacatur should be granted. In reaching this result, the court followed settled case law in this Court,

Congress' broad grant of authority under 28 U.S.C. § 2106, and Fed. R. App. P. 42(b).

Izumi also claims that the Federal Circuit misread the Court's decisions in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), and other cases authorizing the vacatur of judgments. Izumi, however, is wrong; the circumstances in *Munsingwear* are virtually identical to those here, and the facts in cases in which the Court has followed *Munsingwear* are identical to those here. Izumi's reading of *Munsingwear* — that judgments may only be vacated when mootness results from acts beyond the parties' control rather than from intentional acts such as settlement — ignores what happened in *Munsingwear*.

In that case, the appeal was mooted because of a single party's affirmative act — the government's withdrawal of the price controls at issue. *Id.* at 37. Nevertheless, the Court held that the government could have obtained vacatur of the district court judgment on a timely motion. *Id.* at 40-41. That holding was critical, for it was the basis for the Court's further holding that the unvacated judgment had *res judicata* effect. Had the government obtained vacatur of the judgment, the government then could have relitigated the issue encompassed by the judgment. *Id.* at 39-40. *Munsingwear* thus controls every aspect of the present case. If a party that unilaterally mooted a case can obtain vacatur of an adverse judgment and then relitigate the issue against the same defendant, then certainly all parties may obtain vacatur when the parties' settlement moots the case, notwithstanding the objections of a non-party which desires to preserve the judgments for use in another action.

The Federal Circuit properly reviewed and balanced relevant facts and circumstances in the exercise of its discretion. The court then followed the established rule generally favoring vacatur. Accordingly, the Federal Circuit's decision should be affirmed.

**A. AFTER WEIGHING THE RELEVANT FACTS AND CIRCUMSTANCES, THE FEDERAL CIRCUIT VACATED THE JUDGMENTS BELOW IN ACCORD WITH ESTABLISHED PRECEDENT OF THIS COURT AND THE AUTHORITY GRANTED BY CONGRESS.**

Under both the decisions of this Court and by statute (*see infra*, pp. 18-20), the courts of appeals are vested with broad discretion to vacate judgments on settlement. *See, e.g., Cardinal Chem. Co. v. Morton Int'l, Inc.*, 61 U.S.L.W. 4461, 4466 (U.S. May 17, 1993); *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950); 28 U.S.C. § 2106; Fed. R. App. P. 42(b); *cf. Heitmuller v. Stokes*, 256 U.S. 359, 362 (1921) (where action mooted by affirmative act of party, Court "at liberty to make such order as is 'most consonant to justice in view of the conditions and circumstances of the particular case.'") (quoting *United States v. Hamburg-Amerikanische*, 239 U.S. 466, 478 (1916))).

Accordingly, the court of appeals' judgment is subject to review under a standard of abuse of discretion. *See Pierce v. Underwood*, 487 U.S. 552, 558 (1988); *cf. Chambers v. Nasco, Inc.*, 111 S. Ct. 2123, 2138 (1991) (imposition of sanctions subject to abuse of discretion review); *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 639, 642 (1976) (determination under Fed. R. Civ. P. 37(b)(2) subject to abuse of discretion review).

**1. The Decision Below is in Full Accord with Established Precedent of this Court.**

*Munsingwear* permits the vacation of judgments when an appeal becomes moot, and this Court has consistently applied the *Munsingwear* rationale to order vacatur when mootness results from the parties' settlement.<sup>6</sup>

<sup>6</sup> *See, e.g., Pierce v. Ross*, 455 U.S. 1010 (1982) and *Pierce v. Abrams*, 455 U.S. 1010 (1982) (judgments vacated and cases remanded with directions to dismiss where action mooted by settlement; facts of (continued...))

Indeed, in three recent decisions this Court vacated judgments because a settlement mooted the appeal — precisely the circumstances here. *Continental Casualty Co. v. Fibreboard Corp.*, 113 S. Ct. 399 (1992); *City Gas Co. of Fla. v. Consolidated Gas Co. of Fla.*, 111 S. Ct. 1300 (1991); *Lake Coal Co. v. Roberts & Schaefer Co.*, 474 U.S. 120 (1985) (Res. B2, C3). The judgments in *Continental Casualty* and *City Gas* were vacated pursuant to motion, while in *Lake Coal*, the Court, apparently *sua sponte*, vacated the judgment after the underlying action was settled.

Izumi ignores *Continental Casualty* and *Lake Coal*, and can find no basis on which to distinguish *City Gas*. Therefore, Izumi simply asserts, contrary to a decision that it cites, that *City Gas* should have been disregarded by the Federal Circuit because it was a summary order. This Court, however, has repeatedly instructed that summary dispositions are entitled to binding precedential effect. *See, e.g., Edelman v. Jordan*, 415 U.S. 651, 671 (1974) ("summary [dispositions] obviously are of precedential value") (cited by Izumi); *Tully v. Griffin, Inc.*, 429 U.S. 68, 74 (1976) ("[t]his Court's [summary affirmance] . . . is therefore a controlling precedent"); *Mandel v. Bradley*, 432 U.S. 173, 176 (1977) (*per curiam*) (lower courts bound by summary dispositions,

<sup>6</sup>(...continued)

settlement recited in *Pierce v. Underwood*, 487 U.S. 552, 556 (1988) and *Dubose v. Harris*, 82 F.R.D. 582, 592-605 (D. Conn. 1979)); *United States v. Leiter Minerals, Inc.*, 381 U.S. 413 (1965) (as recited in *United States v. Little Lake Misere Land Co.*, 412 U.S. 580, 590 (1973), judgment vacated and settled case remanded with instructions to dismiss as moot); *Baltimore & O.R.R. v. Atchison, T. & S.F. Ry.*, 383 U.S. 832, 833 (1966) and *United States v. Atchison, T. & S.F. Ry.*, 384 U.S. 888 (1966) (as recited in *Chicago & N.W. Ry. v. Atchison, T. & S.F. Ry.*, 387 U.S. 326, 340 (1967), judgment vacated on settlement); *Managed Funds, Inc. v. Brouk*, 369 U.S. 424 (1962) (upon "joint motion of counsel," judgment vacated on settlement; facts of settlement recited in *Greater Iowa Corp. v. McLendon*, 378 F.2d 783, 793 n.6 (8th Cir. 1967)); *Stewart v. Southern Ry.*, 315 U.S. 784 (1942) (*per curiam*), *vacating as moot* 315 U.S. 283 (vacatur of the Court's prior judgment and reversal of judgment below where settlement mooted action).



which "apply[ ] principles established by prior decisions to the particular facts involved"). Evidencing this longstanding rule, this Court frequently has cited and followed previous summary dispositions in rendering subsequent decisions. See, e.g., *Southern Ry. v. Seaboard Allied Milling Corp.*, 442 U.S. 444, 462 (1979); *Richardson v. Ramirez*, 418 U.S. 24, 53 (1974).

Izumi's position also is not supported by citation to those panels of certain courts of appeals that, Izumi contends, routinely deny motions to vacate on settlement.<sup>7</sup> Subsequent decisions in those courts openly acknowledge that the two decisions relied on by Izumi cannot be reconciled with this Court's precedent. See *Clark Equip. Co. v. Lift Parts Mfg. Co.*, 972 F.2d 817, 819 n.1 (7th Cir. 1992) (Seventh Circuit's refusal to grant vacatur upon settlement "is difficult to reconcile . . . with Supreme Court precedent on the subject"); *Commodity Futures Trading Comm'n v. Board of Trade*, 701 F.2d 653, 657 (7th Cir. 1983) (Seventh Circuit would refuse to vacate under circumstances deemed appropriate for vacatur by the Supreme Court); *Harrison W. Corp. v. United States*, 792 F.2d 1391, 1394 n.2 (9th Cir. 1986) (Ninth Circuit's refusal to grant vacatur upon settlement "has been roundly criticized"); cf. *Scott v. Iron Workers Local 118*, No. Civ. S88297 LKK, at A8 (E.D. Cal. June 1, 1989) (Ninth Circuit's refusal to allow vacatur "appears to be contrary to Supreme Court teachings") (attached hereto as Exhibit A).

Indeed, the Ninth Circuit recently retreated from its decision in *Ringsby*, and now apparently follows the rule mandated by this Court favoring vacatur. See *Davis v. City and County of S.F.*, 984 F.2d 345 (9th Cir. 1993) (citing *Munsingwear*, portion of judgment mooted by the parties'

<sup>7</sup> Izumi cites *In re Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1300 (7th Cir. 1988) (Seventh Circuit "always den[ies]" motions to vacate) and *Ringsby Truck Lines, Inc. v. Western Conf. of Teamsters*, 686 F.2d 720, 722 (9th Cir. 1982) (Ninth Circuit "hold[s] that . . . an exception [to *Munsingwear* rule] should be recognized" where an action is mooted by settlement).

settlement vacated notwithstanding court's prior recognition that defendant was frequently subject to similar claims. See 976 F.2d at 1539.).

## 2. Izumi's Attempt to Distinguish *Munsingwear* Is Unavailing and Its Reliance on *Karcher* Misplaced.

In support of its ruling, the Federal Circuit cited, *inter alia*, *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), which stated that when an action becomes moot pending appeal, the appellate court has a "duty" to "reverse or vacate the judgment below and remand with a direction to dismiss." *Id.* at 39-40.

Izumi attempts to limit the rule of *Munsingwear* to those circumstances where mootness occurs by factors beyond the parties' control rather than, e.g., when mootness occurs by the affirmative act of settlement. For numerous reasons, Izumi's reading of *Munsingwear* is demonstrably wrong.

First, the facts in *Munsingwear* belie the distinction Izumi would draw. In *Munsingwear*, the appeal became moot because of the government's affirmative act of decontrolling the commodity at issue. *Id.* at 37. Thus, mootness resulted from the deliberate act of a party to the appeal. Nevertheless, the Court stated that appellate courts should generally vacate judgments under such circumstances. *Id.* at 39-40.

Although Izumi cites the Court's reference in *Munsingwear* to review being prevented "through happenstance," *id.* at 40, the Court did not suggest that vacatur was available *only* under such circumstances. Indeed, given that review in *Munsingwear* was prevented because of a party's intentional act, it is beyond dispute that vacatur is available under such circumstances.

Second, nothing in *Munsingwear* suggests that the Court adopted the distinction Izumi would draw. The Court in *Munsingwear* expressly stated that the goal of vacating on mootness was to prevent "prejudice[ ] by a decision which in the statutory scheme [of providing for appeals] was only preliminary." *Id.* Moreover, the Court made clear that the



government — the party mooting the appeal — could have obtained vacatur upon a timely motion, thereby eliminating any collateral effect of the adverse judgment. *Id.* Although Izumi reads into *Munsingwear* a distinction that serves its own ends, the Court clearly did not limit vacatur to appeals becoming moot as a result of unintentional acts.

Third, in granting the joint motion of the parties in *City Gas* to vacate the judgment after settlement — precisely the circumstances here — the Court cited *Munsingwear* in support of its decision. 111 S. Ct. at 1300. Thus, this Court itself has recognized that the holding of *Munsingwear* is not as narrow as Izumi would suggest, and that *Munsingwear* provides controlling authority for the result below.

Fourth, not only has this Court consistently vacated judgments where mootness was caused by settlement (see *supra* pp. 12-14), it has regularly done so in other circumstances, where, like *Munsingwear*, mootness was caused by the affirmative act of one party. See, e.g., *Board of Regents of the Univ. of Tex. Sys. v. New Left Educ. Project*, 414 U.S. 807 (1973), vacating 472 F.2d 218 (5th Cir.) (reversing appellate court refusal to vacate because mootness was due to the intentional act of appellant); *Deakins v. Monaghan*, 484 U.S. 193, 200 (1988) (citing *Munsingwear*, judgment vacated after respondents' withdrawal of federal claims); *Webster v. Reproductive Health Servs.*, 492 U.S. 490, 512-13 (1989) (citing *Deakins* and *Munsingwear*, partial vacatur ordered after change in party's position).

Finally, the distinction drawn by Izumi is irrelevant to the interests which Izumi contends override the parties' interests in vacatur. The reasons for granting vacatur — as opposed to whether vacatur is granted — are irrelevant to the alleged public interest in preserving a judgment or a non-party's desire to use the judgment collaterally.

Thus, there is no basis for Izumi's attempt to limit *Munsingwear*. That decision clearly supports vacatur in precisely the circumstances here.

Izumi's attempt to fit this case within the circumstances of *Karcher v. May*, 484 U.S. 72 (1987), is no more successful than its attempt to distinguish *Munsingwear*. In *Karcher*, the individuals seeking appeal on behalf of a state legislature lost their legislative posts *before* the appeal was perfected. *Id.* at 76-77. The newly elected legislators — who then became the representatives of the losing party below — decided not to appeal. The Court found that the ex-legislators lacked the authority to pursue the appeal or request vacatur because they no longer represented any party in the case. *Id.* at 81. The appeal was dismissed for lack of standing, not mootness. *Id.* Thus, *Munsingwear* was inapplicable because the individuals requesting vacatur were not parties to the action, and hence, had no standing to seek, much less obtain, vacatur. See *Long Island Lighting Co. v. Cuomo*, 888 F.2d 230, 234 n.4 (2d Cir. 1989) ("Thus, *Karcher* was in essence a case in which the losing party did not appeal.").

Izumi's assertion that "[t]here is no meaningful distinction between the facts of *Karcher*, where the appellant voluntarily dismissed its appeal, and the present case" (Pet. Br. 22) is ludicrous. Although this action can be distinguished from *Karcher* on several grounds, the primary and dispositive difference is that *none* of the parties sought vacatur in *Karcher*, whereas *all* of the parties have sought vacatur here. The appeal in *Karcher* was not mooted, but rather no appeal was taken by the losing party. Not only is *Karcher* distinguishable on a variety of grounds — there is nothing in *Karcher* that is relevant here.

### 3. Izumi Has Presented No Reason to Overrule Longstanding Precedent.

Izumi bears a heavy burden in seeking to overrule longstanding precedent permitting vacatur as announced in *Munsingwear*, *City Gas Co.*, and the numerous other pronouncements of this Court cited above. Any departure from *stare decisis*, a doctrine of "fundamental importance to the rule of law," requires "special justification." *Patterson v. McLean Credit Union*, 491 U.S. 164, 172 (1989) (quoting

*Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 494 (1987) and *Arizona v. Rumsey*, 467 U.S. 203, 212 (1984)). Moreover, because Izumi is asking the Court to overrule a statutory construction, its burden is even greater, as Congress remains free to act if the Court has misconstrued the authority Congress sought to bestow.<sup>8</sup> *Id.* at 172-73; see also *Hilton v. South Carolina Pub. Rys. Comm'n*, 112 S. Ct. 560, 565 (1991) ("doctrine of *stare decisis* is most compelling" when the issue is one of statutory construction).

Izumi presents no special circumstances here that would justify a departure from established precedent. The fact that Izumi or Sears wish to use the judgments collaterally in another action — the only justification Izumi presents for denying vacatur — is no different from the circumstances in any other case where the judgment, had it not been vacated, might be of use to a non-party. As shown *infra* at pp. 31-39, the policy considerations raised by Izumi are illusory, and certainly not sufficient to justify departure from *stare decisis*. See *Hilton*, 112 S. Ct. at 565.

#### 4. Vacatur of the Judgments Was Within the Broad Authority of 28 U.S.C. § 2106 and Proper Under Fed. R. App. P. 42(b).

In vacating the judgments, the Federal Circuit also properly exercised the discretion conferred by Congress on the federal appellate courts under 28 U.S.C. § 2106. That section states in pertinent part:

The Supreme Court or any other court of appellate jurisdiction may . . . vacate . . . any judgment . . . as may be just under the circumstances. 28 U.S.C. § 2106 (1982).

In construing § 2106, this Court has repeatedly stressed that it confers broad authority on courts of appellate jurisdiction. See, e.g., *Munsingwear*, 340 U.S. at 40 ("Our

<sup>8</sup> The authority to vacate upon mootness derives, *inter alia*, from 28 U.S.C. § 2106. See *Munsingwear*, 340 U.S. at 40; see also *infra* pp. 18-19.

supervisory power over the judgments of the lower federal courts is a broad one. See 28 U.S.C. § 2106 . . .").<sup>9</sup>

The Court has noted that the authority conferred by § 2106 includes the authority to vacate a judgment when an action has become moot pending appeal. *Munsingwear*, 340 U.S. at 40-41; see also *Oracare DPO, Inc. v. Merin*, 972 F.2d 519, 523 (3d Cir. 1992) (relying on § 2106 to vacate district court order where parties' settlement mooted action); *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762, 765 (9th Cir. 1989) (although finding district court did not abuse discretion in denying motion to vacate upon settlement, citing § 2106 as conferring "broad discretion to vacate").

The Federal Circuit's order of vacatur was further within its discretion to fix terms upon which an appeal may be dismissed under Fed. R. App. P. 42(b), which states in pertinent part:

An appeal may be dismissed on motion of the appellant upon such terms as may be agreed upon by the parties or fixed by the court. Fed. R. App. P. 42(b).

Because vacatur was agreed to by all parties to the appeal, the Federal Circuit was clearly within its discretion under the plain language of Rule 42(b) to grant the relief requested.<sup>10</sup>

<sup>9</sup> See also *Haynes v. United States*, 390 U.S. 85, 101 (1968) ("We have plenary authority under 28 U.S.C. § 2106 to make such disposition of the case 'as may be just under the circumstances.'") (citations omitted); *Allied Chem. Corp. v. Daiiflon, Inc.*, 449 U.S. 33, 34 (1980) (contrasting the courts of appeals' "broad authority" under § 2106 with the authority under the All Writs Act, 28 U.S.C. § 1651(a)); *Forman v. United States*, 361 U.S. 416, 425 (1960) (authority under § 2106 authorizes a court to go beyond the particular relief sought in rendering a just disposition).

<sup>10</sup> See, e.g., *In re Penn Cent. Transp. Co.*, 630 F.2d 183, 190 (3d Cir. 1980) (decision to grant or deny motions under Rule 42(b) and to set the terms thereof rests in appellate court's discretion); *Showtime/The* (continued...)



Izumi has not offered any reason why the decision below was not within the discretion vested in appellate courts by statute and rule. Indeed, Izumi has simply ignored both § 2106 — relied on in *Munsingwear* — and Rule 42(b). The decision below, however, was clearly within the discretion afforded by these legislative pronouncements.

**5. The Federal Circuit Found in the Sound Exercise of Its Discretion that Vacatur Was Appropriate.**

The Federal Circuit soundly exercised the discretion vested in it by this Court, by statute and by rule in vacating the judgments under the circumstances here. In accord with these authorities, the Federal Circuit recognizes that “judgments should in general be vacated when the case becomes moot.” (Pet. A5). The court, however, also considers itself obliged to “review the propriety of vacatur” under the circumstances of each case (*id.*), and it undertook such a review here:

[W]e do not hold that vacatur must always be granted, whatever the circumstances. In this case, however . . . the settlement between Philips and Windmere includes all the parties to the appeal. All of the claims of the judgments were appealed, and have now become entirely moot. *See Munsingwear, supra*. The parties to this appeal are entitled to rely on our precedent. Vacatur of the judgments on appeal is appropriate. (Pet. A6).

Contrary to Izumi’s charge, the Federal Circuit did not “ignore” the effects of vacatur on third parties (Pet. Br. 28).

<sup>10</sup>(...continued)

*Movie Channel, Inc. v. Covered Bridge Condominium Ass’n*, 895 F.2d 711, 713 (11th Cir. 1990) (same). Appellate courts regularly exercise such discretion to vacate judgments upon settlement under Rule 42(b). *See, e.g., Purcella v. United States*, 968 F.2d 10 (10th Cir. 1992); *see also Showtime/The Movie Channel*, 895 F.2d at 713-14 (vacating prior published opinion under Rule 42(b) where parties settled between oral argument and decision).

It simply considered and disagreed with the points raised by Izumi. Indeed, in specifically addressing the effects of vacatur on third parties, the court concluded that the equities disfavored Izumi:

Izumi argues that . . . the judgment of the Florida court should be preserved for purposes of collateral estoppel. . . . Izumi seeks the benefit of the Florida settlement, yet seeks the benefit of the Florida judgment for its possible effect in other actions.

Izumi does not dispute that it is not a party to the unfair competition claims in the Illinois action. (Pet. A4).

Thus, in exercising its discretion to reject Izumi’s claims, the court of appeals expressly stated that vacatur was not automatic (Pet. A5, A6). It then ruled that Izumi’s sole reason for opposing vacatur here — the desire to have the judgments used in another action — did not justify either departure from longstanding precedent or upsetting the reasonable expectations of all parties to the judgments. Izumi has not shown that it was an abuse of discretion for the court to refuse to favor Izumi’s alleged interest over those of the parties.

Izumi claims that the court’s discretion should have been exercised as Izumi desires because it was purportedly vitally interested in the results of the second trial in Florida (Pet. Br. 13-15). Izumi makes this claim, yet it avoided becoming a party in Florida, deleted its name from the proposed pretrial order (J.A. 99a), and its counsel represented to the court of appeals that Windmere was the *only* real party appellee in interest (J.A. 156a-57a). Izumi finally appeared only when Philips irrevocably gave up its right to appeal the judgments Izumi now seeks to preserve.

Izumi avoided becoming a party because it believed it then had two chances of winning the issue. If Philips lost to Windmere, Izumi obviously reasoned that the judgment could be used to assert collateral estoppel in Illinois. If Philips won the issue in Florida, then Izumi would contend it was not a



party, and that the Florida judgments had no bearing on the claims in Illinois. The Federal Circuit specifically recognized Izumi's strategy (Pet. A4), and after considering this and other relevant circumstances, it soundly exercised its discretion to vacate the judgments.

Izumi also argues that it had an interest in preserving the antitrust judgment entered against Philips in Florida.<sup>11</sup> In the circumstances present here, however, allowing Izumi to assert an interest in the antitrust judgment to use it offensively only proliferates litigation and rewards Izumi for refusing to join its identical antitrust claims with Windmere's and allows Izumi to try such claims a second time in a subsequent action.

As the Court recognized in *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 330 (1979), offensive use of preclusion frequently causes more, not less, litigation:

[O]ffensive use of collateral estoppel will likely increase rather than decrease the total amount of litigation, since potential plaintiffs will have everything to gain and nothing to lose by not intervening in the first action.<sup>12</sup>

By failing to assert its counterclaim in Florida and then seeking to use the Florida antitrust judgment offensively against Philips in the Illinois action, Izumi typifies the "wait-and-see" plaintiff which caused concern in *Parklane*.

<sup>11</sup> Izumi devotes but a few sentences in its brief to acknowledging that it seeks to "invoke offensive collateral estoppel [on the] antitrust issues." (Pet. Br. 5).

<sup>12</sup> See also *Hauser v. Krupp Steel Producers, Inc.*, 761 F.2d 204, 207 (5th Cir. 1985) (district court's denial of collateral estoppel effect not an abuse of discretion where "wait-and-see" plaintiff gave no reason for not joining in first action); James F. Flanagan, *Offensive Collateral Estoppel: Inefficiency and Foolish Consistency*, 1982 Ariz. St. L.J. 45, 52-61 (offensive collateral estoppel wastes judicial resources for a variety of reasons).

Furthermore, Izumi's interest in the antitrust judgment is even more remote because Izumi's antitrust claim has been dismissed by the Illinois District Court (Pet. A44-A45). Even if its claim were revived, it is unlikely that an antitrust judgment that has at its core a finding of intent to harm a specific party, Windmere, can be used by another plaintiff for nonmutual offensive collateral estoppel. See *Montana v. United States*, 440 U.S. 147, 155 (1979) (collateral estoppel may be applied only if the issue at hand is identical to the issue litigated in the prior proceeding); see also *Parklane*, 439 U.S. at 329-31 (offensive collateral estoppel should not be applied if it would result in unfairness to a defendant). Thus, to have any interest in the antitrust judgment, Izumi must first prevail on appeal and then demonstrate that it is entitled to use the judgment offensively against Philips.

This Court's recent decision in *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 61 U.S.L.W. 4461 (U.S. May 17, 1993), does not suggest that the court of appeals abused its discretion. In *Cardinal*, the Court held that the court of appeals may not automatically vacate a judgment of patent invalidity when affirming a judgment of non-infringement. The Court reasoned that a judgment of non-infringement did not necessarily moot a counterclaim seeking a declaration of invalidity, particularly where both parties sought appellate review of this declaratory judgment, and the lack of such review perpetuated the parties' "ongoing dispute over the issue of validity." *Id.* at 4467.

In the course of its opinion, the Court cited several interests which supported the result in that case — the interest of a successful party in preserving a judgment obtained at great cost and the public interest in the finality of a judgment of patent invalidity. *Id.* at 4466. Neither interest is implicated here.

First, unlike *Cardinal*, the judgments here were vacated on the joint motion of all parties, not *sua sponte* by the court against the wishes of all parties. Although Izumi is a non-party, it contends that it paid for Windmere's defense of the unfair competition claim. Therefore, Izumi argues, its interest is sufficient to preserve those judgments and the parties'

interests must be subordinated. Izumi, however, did not appear in the case or the appeal, thereby attempting to avoid any consequences of an adverse judgment. Izumi should not be permitted to rely on Windmere as the real party to the claim and only assert its alleged interest when the appeal had been dismissed, and Philips had lost its right to appeal. Thus, unlike *Cardinal*, vacatur here was consistent with the interests of the prevailing party below which joined in the motion to vacate.

The public interest in preserving a judgment of patent invalidity after a "fair" trial, *id.*, also does not apply here. Philips' unfair competition claim, of course, involved no patents, and the nature of Philips' claim is so different from a patent claim that the concerns expressed in *Cardinal* are not relevant to this action. First, the jury in Florida did not determine that Philips' design was not protectable or that the design was "invalid." The jury decided only that Philips had not met the burden of proving non-functionality. In the majority of jurisdictions, however, including the Seventh Circuit (in which the Illinois case will be tried), the burden on the issue of functionality is placed on the defendant. See *Abbott Lab. v. Mead Johnson & Co.*, 971 F.2d 6, 20 (7th Cir. 1992); 1 Thomas J. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 7.26[3][d], at 7-126 (3d ed. 1992) ("The majority takes the view that functionality is a classic 'defense' to be pleaded and proven by defendant as part of a challenge to validity.").

Furthermore, while evidence of whether a patent is invalid is *sui generis* to the patent holder and remains the same in any successive trial, evidence of likelihood of confusion and other elements of a claim of unfair competition depend in significant part on the particular facts involving the defendant. See *id.* § 7.26[3][e], at 7-127 ("Each case of alleged functionality will present a unique set of facts . . ."). Thus, Philips' claim of unfair competition against Sears will be based, in part, on Sears' alleged act of intentional copying, whether Sears needed to copy the Philips' shaver to compete, and whether the public is confused as to the source of the Sears shaver. Obviously, unlike a claim of patent infringement, Philips' Illinois unfair

competition claim is based on different law and facts than its claim against Windmere. The fact that a jury found that Windmere was not guilty of unfair competition has very little bearing on the validity of Philips' claim against Sears. Therefore, the public interest in the finality of a judgment of patent invalidity, which precludes the assertion of an invalid patent, simply is not implicated here.<sup>13</sup>

Thus, Izumi has no interest in preserving these judgments that overrides the interests of the parties, and the court properly exercised its discretion in vacating them.

The result below also constituted a sound exercise of discretion by promoting justice and fairness to the parties. The court of appeals' decision permitted Windmere to accept what it believed to be a reasonable settlement and prevented Philips from forever bearing the collateral effect of these unreviewed and uncertain judgments which Philips believed were unjust and outside the bounds of law. See *Munsingwear*, 340 U.S. at 40; *Standefer v. United States*, 447 U.S. 10, 23 n.18 (1980) ("The estoppel doctrine . . . is premised upon an underlying confidence that the result achieved in the initial litigation was substantially correct. In the absence of appellate review, or of similar procedures, such confidence is often unwarranted."); cf. *United States ex rel. Toth v. Quarles*, 350 U.S. 11, 19 (1955) (the power to review biased or incorrect jury verdicts gives "appellate judges . . . a most important place under our constitutional plan").

Vacatur here also promoted fairness to other litigants by allowing Windmere to settle on terms that it deemed satisfactory, and by not rewarding Izumi for waiting to protect its alleged interests until after a trial was had, a judgment entered, an appeal fully briefed, and a settlement

<sup>13</sup> The distinction between the Federal Circuit's practice under review in *Cardinal* and the practice at issue here is underscored by the fact that Chief Judge Nies of the Federal Circuit dissented from the practice at issue in *Cardinal*, but authored the opinion in *Smith Int'l, Inc. v. Hughes Tool Co.*, 839 F.2d 663 (Fed. Cir. 1988), which vacated a judgment on settlement.



reached which mooted the appeal. Parties such as Izumi should be required to litigate all claims in a single action.

As the Federal Circuit surely recognized in exercising its discretion, vacatur also preserved judicial resources. Had vacatur been unavailable and Philips pursued its appeal, the court of appeals would have had to decide numerous complicated and time-consuming issues, and a new trial before the district court was a real possibility. Furthermore, the courts of appeals are split on at least two legal issues raised by Philips' appeal — the proper antitrust standard for predatory pricing and the burden of proof on the issue of functionality. The losing party on the appeal certainly would have petitioned this Court for review. But for this settlement, the Philips-Windmere disputes would surely still be in the courts.

Additionally, denying vacatur will not conserve judicial resources in the Illinois action. First, regardless of whether Philips' unfair competition claims are tried in Illinois, other intellectual property claims involving the same electric shavers will be tried there. Second, Philips strenuously argued before the district court in Illinois that the Florida unfair competition judgment should not be given preclusive effect because, *inter alia*, of the significant differences between the unfair competition law in the Seventh Circuit and that applied in Florida. If the Florida judgment is reinstated and again given preclusive effect, Philips will pursue its arguments on appeal.

Thus, in this action — as is the case generally — vacatur resulted in the immediate and substantial savings of judicial and private resources, whereas any savings resulting from collateral estoppel are, at best, speculative. See, e.g., *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 284 (2d Cir. 1985) (lower court refusing to vacate judgment in an effort to preserve its collateral estoppel effect "was at pains to describe the plight of hypothetical future defendants facing hypothetical future lawsuits brought by [plaintiff]"); Henry E. Klingeman, Note, *Settlement Pending Appeal: An Argument for Vacatur*, 58 Fordham L. Rev. 233, 239-40, 249-50 (1989) (vacatur upon settlement more effective than preclusion in

conserving judicial resources because, *inter alia*, there is little evidence that vacatur upon settlement results in relitigation).

Finally, in achieving equity and preserving judicial resources, the court of appeals did not, as Izumi contends, harm any public interest in precedent (Pet. Br. 33-34). Izumi has confused the public interest that may attach to a judicial opinion which guides future litigants and interprets the law, with the issue in this case — the vacatur of two unreported judgments which do no more than resolve a dispute between Philips and Windmere. See *infra*, pp. 38-39.

In the sound and proper exercise of its discretion, the Federal Circuit weighed all of the relevant facts and circumstances in this action, including Izumi's alleged interest in the judgments, and determined that the judgments should be vacated.<sup>14</sup>

**6. If the Court Determines that the Federal Circuit Erred in Granting Vacatur, the Court's Decision Should Be Applied Only Prospectively.**

In consummating their settlement, the parties relied on unambiguous, settled law that vacatur on settlement was a remedy that should be granted under the circumstances presented here. If the Court determines that the Federal Circuit erred, equity requires that the Court's ruling should

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<sup>14</sup> Petitioner also erroneously attempts to characterize *Federal Data Corp. v. SMS Data Prods. Group, Inc.*, 819 F.2d 277 (Fed. Cir. 1987) as "confirm[ation] that the [Federal Circuit's] practice is to automatically grant settling parties' motion to vacate." (Pet. Br. 18). In *Federal Data*, however, the Federal Circuit specifically stated that it considered and found the reasoning in *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280 (2d Cir. 1985), persuasive. *Id.* at 279. In *Nestle*, the Second Circuit vacated upon settlement only after it carefully weighed the public interest in the finality of judgments, 756 F.2d at 282, and in the adjudication of the validity of trademarks, *id.* at 284, against the private interests of the parties to the action. *Id.*



be applied only prospectively. *See Chevron Oil Co. v. Huson*, 404 U.S. 97 (1971).<sup>15</sup>

Under *Chevron*, it is appropriate to apply a decision only prospectively under the following circumstances:

First, the decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants may have relied, or by deciding an issue of first impression whose resolution was not clearly foreshadowed. Second, . . . we must . . . weigh the merits and demerits of each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation. Finally, we [must] weigh[h] the inequity imposed by retroactive application, for where a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the injustice or hardship by a holding of nonretroactivity.

<sup>15</sup> Izumi argues that the court of appeals applied an incorrect standard in exercising its discretion and that the decision therefore should be reversed. The appropriate remedy in such circumstances, however, is to remand the case for further proceedings consistent with the Court's opinion, not to reverse the result below. *See Cardinal Chem. Co. v. Morton Int'l, Inc.*, 61 U.S.L.W. 4461, 4467 (U.S. May 17, 1993) (Court of Appeals abused its discretion; case remanded "for further proceedings consistent with this opinion."); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 257 (1986) ("Because the Court of Appeals did not apply the correct standard . . . we vacate its decision and remand the case for further proceedings consistent with this opinion."); *Mandel v. Bradley*, 432 U.S. 173, 179 (1977) (per curiam) (footnote omitted) ("The application of [the relevant] standards to the evidence in the record is, in the first instance, a task for [the court below]. We therefore . . . remand the case for further proceedings consistent with this opinion."); *see also United States v. Hasting*, 461 U.S. 499, 515-18 (1983) (Stevens, J., concurring) (Court should not undertake record-review).

*Id.* at 106-07 (citations and internal quotations omitted). Each of the elements of *Chevron* are satisfied here.

First, and as shown above (*see supra*, pp. 9, 12-17), Philips was willing to settle on the terms that it did and abandon its meritorious appeal in large part because well established precedent confirmed that a joint motion to vacate would be granted under the circumstances here. Reasonable reliance of the parties is "consistently given great weight" in determining whether to apply a decision only prospectively. *American Trucking Ass'ns v. Smith*, 496 U.S. 167, 185 (1990) (plurality opinion). As the Federal Circuit declared, "[t]he parties to this appeal are entitled to rely on our precedent. Vacatur of the judgments on appeal is appropriate." (Pet. A6).<sup>16</sup>

The circumstances here also meet the second element of *Chevron*. Reinstatement of the judgments below would not promote any of the goals cited by Izumi — conserving judicial resources (*see supra*, pp. 22, 26-27) or achieving equity (*see supra*, pp. 25-26). Prospective application of a new rule prohibiting vacatur upon settlement also will not "depriv[e] the public of judicial precedents created at substantial cost to the public." (Pet. Br. 34). Because only judgments and no opinions were vacated here, there is no adverse effect on *stare decisis*. (*See infra*, pp. 38-39). In addition, the questionable nature of these unreviewed and unpublished judgments confirms that the public has little, if any, interest in their preservation. The parties' willingness to settle on the terms that they did at a point when the appeal had been fully briefed demonstrates the uncertainty over whether the judgments would be sustained on appeal. Under

<sup>16</sup> The reliance element of *Chevron* is satisfied when a party relies on precedent within its circuit which the Court later overrules. *See Chevron*, 404 U.S. at 107 (party relied on Fifth Circuit precedent); *Saint Francis College v. Al-Khazraji*, 481 U.S. 604, 608 (1987) (party relied on Third Circuit precedent); *see also Anton v. Lehpamer*, 787 F.2d 1141, 1143 (7th Cir. 1986) (in examining first element of *Chevron*, the court should focus on precedent within the circuit rather than on "clear precedent" nationwide).

these circumstances, prospective application cannot cause harm to the "public interest" in precedent.

Indeed, in accord with fundamental fairness, prospective application will foster the goals underlying a new principle that overrules clear past precedent by providing parties with the opportunity to adjust their expectations and structure their affairs accordingly from this point forward. See *Mineo v. Port Auth. of N.Y. and N.J.*, 779 F.2d 939, 945 (3d Cir. 1985), cert. denied, 478 U.S. 1005 (1986).

In applying the third element of *Chevron*, it is beyond contention that it would be inequitable to apply a new rule to Philips. Doing so would subject Philips to both the settlement, requiring that Philips pay \$57 million to Windmere and give up its right to appeal, and the consequences of the reinstated judgments.<sup>17</sup> Because Philips relied on settled law favoring vacatur, it would be extremely inequitable for Philips to bear whatever consequences the reinstated judgments might have without any possibility of reviving its appeal and retrieving its payment to Windmere.

In sum, retroactive application to Philips of a decision disallowing vacatur would "produce substantial inequitable results." See *American Trucking*, 496 U.S. at 183 (quoting *Chevron*, 404 U.S. at 107). Any new rule of law announced by this Court should be applied only prospectively, and the result below should be left intact.

<sup>17</sup> The substantial inequity element of *Chevron* is satisfied where a party has justifiably relied on clear precedent and retrospective application of the new decision will preclude the party from pursuing a remedy, see *Saint Francis*, 481 U.S. at 608 (change in applicable time limitations period); *Chevron*, 404 U.S. at 108 (same), where there would be extreme hardship to parties who relied on the constitutional validity of the court system, see *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 88 (1982) (reliance on unconstitutional Bankruptcy Act), or where there would be great cost to the party who justifiably relied, see *American Trucking*, 496 U.S. at 182 (retroactive application of unconstitutional taxing structure could unfairly deplete state treasury).

**B. THE PRACTICE OF PERMITTING COURTS  
TO VACATE JUDGMENTS UPON SETTLEMENT  
IS WELL ESTABLISHED AND REFLECTS SOUND  
POLICY; IT SHOULD NOT NOW BE CURTAILED.**

There are sound policy reasons why this Court should not abandon the rule announced in *Munsingwear* and its progeny, or limit the discretion granted by 28 U.S.C. § 2106 and Fed. R. App. P. 42(b). Vacation of judgments on settlement is widely accepted and employed by the courts, and curtailing such a practice will undoubtedly increase already crowded appellate dockets. The practice also protects the interests of litigants and, particularly because the practice here concerns only judgments and not opinions, it does not implicate the significant interests advanced by *stare decisis*.

**1. Vacation of Judgments Upon Settlement  
Is a Widespread and Longstanding Practice.**

The prevailing practice of ordering vacatur upon settlement has a significant impact on the promotion of settlement and the preservation of judicial resources. Since 1970, there have been at least 56 reported federal circuit and district court cases in which some form of vacatur upon settlement was ordered or indicated.<sup>18</sup> State courts also frequently

<sup>18</sup> See, e.g., *Davis v. City and County of S.F.*, 984 F.2d 345 (9th Cir. 1993); *Rodriguez v. Meba Pension Trust*, 978 F.2d 1334 (4th Cir. 1992); *Purcella v. United States*, 968 F.2d 10 (10th Cir. 1992); *Studio 1712, Inc. v. Etna Prods. Co.*, 968 F.2d 10 (10th Cir. 1992); *Baxter Healthcare Corp. v. Healthdyne, Inc.*, 956 F.2d 226, 227 (11th Cir. 1992); *Israel Discount Bank Ltd. v. Entin*, 951 F.2d 311, 313 n.3 (11th Cir. 1992); *Laber v. Merit Sys. Protection Bd.*, 982 F.2d 519, 520 (Fed. Cir. 1992); *Oracare DPO, Inc. v. Merin*, 972 F.2d 519, 523 (3d Cir. 1992); *Resolution Trust Corp. v. Tetco, Inc.*, No. 91-5612, 1992 WL 437650, at \*1 (5th Cir. Apr. 22, 1992); *Trudo v. County of Pueblo*, No. 91-1253, 1992 U.S. App. LEXIS 19164, at \*1 (10th Cir. Aug. 11, 1992); *Kimrough v. Bowman Transp., Inc.*, 929 F.2d 599 (11th Cir. 1991); *Kliebert v. Upjohn Co.*, 947 F.2d 736, 737 (5th Cir. 1991); *Howell v.* (continued...)



<sup>18</sup>(...continued)

*Evans*, 931 F.2d 711, 712 (11th Cir. 1991); *In re Shelby Motel Group, Inc.*, 925 F.2d 1583, 1584 (11th Cir. 1991); *Mur-Maid Enters., Inc. v. Townsend*, 951 F.2d 297 (11th Cir. 1991); *Wiley v. Western Airlines, Inc.*, Nos. 89-16141, 89-16142, 1991 U.S. App. LEXIS 8239, at \*8 (9th Cir. Apr. 15, 1991); *Showtime/The Movie Channel, Inc. v. Covered Bridge Condominium Ass'n*, 895 F.2d 711, 713-14 (11th Cir. 1990); *Reliance Ins. Co. v. Kent Corp.*, 909 F.2d 424, 425 (11th Cir. 1990); *Long Island Lighting Co. v. Cuomo*, 888 F.2d 230, 233-34 (2d Cir. 1989); *Dunn v. Blue Ridge Tel. Co.*, 888 F.2d 731, 732 (11th Cir. 1989); *United States v. Queen Mountain Mining, Inc.*, 865 F.2d 1269 (6th Cir. 1989) (text in Westlaw); *Smith Int'l, Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988); *Federal Data Corp. v. SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987); *Tosco Corp. v. Hodel*, 826 F.2d 948, 948 (10th Cir. 1987); *Societe Nationale Industrielle Aerospatiale v. United States Dist. Court For the Dist. of Alaska*, 823 F.2d 382, 383 (9th Cir. 1987); *Grochal v. Aeration Processes, Inc.*, 812 F.2d 745 (D.C. Cir. 1987); *Kennedy v. Block*, 784 F.2d 1220, 1225 (4th Cir. 1986); *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 284 (2d Cir. 1985); *Hendrickson v. Secretary of Health and Human Servs.*, 774 F.2d 1355 (8th Cir. 1985); *Douglas v. Donovan*, 704 F.2d 1276, 1280 (D.C. Cir. 1983); *Delta Air Lines, Inc. v. McCoy Restaurants, Inc.*, 708 F.2d 582, 584 (11th Cir. 1983); *Aviation Enters., Inc. v. Orr*, 716 F.2d 1403, 1408 (D.C. Cir. 1983); *Amalgamated Clothing & Textile Workers Union v. J.P. Stevens & Co.*, 638 F.2d 7, 8 (2d Cir. 1980); *Inland Corp. v. Buckeye Tank Terminals, Inc.*, No. 78-3062/3, slip op. at 1 (6th Cir. May 15, 1980); *Ellis v. Flying Tiger Corp.*, 504 F.2d 1004, 1006 (7th Cir. 1972); *United States v. Hartec Enters., Inc.*, 130 B.R. 929 (W.D. Tex. 1991); *Tyson v. Levinson*, 56 Empl. Prac. Dec. (CCH) ¶ 40,622, at 66,274 (D.D.C. 1991); *Trailer Marine Transp. Corp. v. Philadelphia Export Consolidations, Inc.*, No. 88-4634, 1991 U.S. Dist. LEXIS 5318, at \*1 (D.N.J. Mar. 27, 1991); *Bonnett v. United States*, No. 91-352-CIV-T-10A, 1991 U.S. Dist. LEXIS 16637, at \*1 (M.D. Fla. Oct. 29, 1991); *DeLorean v. Cork Gully*, 118 B.R. 932, 938 (E.D. Mich. 1990); *In re Fryar*, 113 B.R. 317, 318 (W.D. Tex. 1989); *Schering Corp. v. Schering Aktiengesellschaft*, 709 F. Supp. 529, 530 (D.N.J. 1988); *Streiff Jewelry Co. v. United Parcel Serv.*, 679 F. Supp. 7 (S.D. Fla. 1988); *Jacobson v. John Hancock Mut. Life Ins. Co.*, 662 F. Supp. 1103, 1113 (D. Conn. 1987); *Lowery v. WMC-TV*, 661 F. Supp. 65, 65-66 (W.D. Tenn. 1987); (continued...)

vacate, modify or reverse upon settlement or request of the parties.<sup>19</sup> This sampling of reported cases reflects the

<sup>18</sup>(...continued)

*Welsch v. Gardebring*, 667 F. Supp. 1284, 1298 (D. Minn. 1987); *Hi-Hat Restaurant, Inc. v. INS*, 584 F. Supp. 1272 (D. Or. 1984); *Candelaria Indus., Inc. v. Occidental Petroleum Corp.*, 662 F. Supp. 1002, 1011 (D. Nev. 1984); *Universal City Studios, Inc. v. Nintendo Co.*, 578 F. Supp. 911, 916 (S.D.N.Y. 1983), *aff'd*, 746 F.2d 112 (2d Cir. 1984); *Harrell v. C.C. Mayes Co.*, 99 Lab. Cas. (CCH) ¶ 10, 725, at 20,504-05 (E.D. Tenn. 1983); *D'Antonio v. United States*, 635 F. Supp. 391, 392 (S.D. Ohio 1983); *Angstrohm Precision, Inc. v. Vishay Intertechnology, Inc.*, 567 F. Supp. 537, 539 (E.D.N.Y. 1982); *United States v. American Tel. & Tel. Co.*, 552 F. Supp. 131, 138 n.17, 226 (D.D.C. 1982), *aff'd sub nom.*, *Maryland v. United States*, 460 U.S. 1001 (1983); *Township of River Vale v. Harris*, 444 F. Supp. 90, 91 (D.D.C. 1978); *Breckenridge Hotels Corp. v. Real Estate Research Corp.*, 456 F. Supp. 385 (E.D. Mo. 1978); *Doe v. Swinson*, No. 76-91-A, slip op. at 1 (E.D. Va. Dec. 22, 1976).

<sup>19</sup> See, e.g., *City of Valdez v. Gavora, Inc.*, 692 P.2d 959, 960-61 (Alaska 1984); *Southwest Sav. and Loan Ass'n v. Mason*, 751 P.2d 526, 527 (Ariz. 1988); *Sanson v. Gonzales*, 688 P.2d 641, 642 (Ariz. 1984); *Food for Health Co. v. 3839 Joint Venture*, 628 P.2d 986, 989 (Ariz. Ct. App. 1981); *St. Paul Fire and Marine Ins. Co. v. Hundley*, 354 F. Supp. 655, 657-58 (E.D. Ark. 1973); *Neary v. Regents of the Univ. of Cal.*, 834 P.2d 119, 126 (Cal. 1992); *Fowler v. Associated Oil Co.*, 79 P.2d 728 (Cal. 1938); *Stonewall Ins. Co. v. City of Palos Verdes Estates*, 9 Cal. Rptr. 2d 663, 666, 681 (Cal. Ct. App. 1992); *City of Laguna Beach v. Mead Reins. Corp.*, 276 Cal. Rptr. 438, 441 (Cal. Ct. App. 1990); *Cabot v. Colorado Charter Lines, Inc.*, 776 P.2d 1151, 1151 (Colo. Ct. App. 1989); *Sobocinski v. Freedom of Info. Comm'n*, 566 A.2d 703, 708-09 (Conn. 1989); *Lee v. A.C. & S., Inc.*, 538 A.2d 1113 (Del. 1988) (text in WESTLAW); *In re Miller's Estate*, 197 So. 791 (Fla. 1940); *Burgwin v. Stewart*, 182 So. 297 (Fla. 1938); *State ex rel. Meredith v. Cone*, 177 So. 545 (Fla. 1937); *Adams v. Galloway*, 155 So. 96 (Fla. 1934); *Robinson v. Croker*, 158 So. 123, 124 (Fla. 1934); *Mortgage Corp. of America v. Inland Constr. Co.*, 463 So. 2d 1196, 1196 (Fla. Dist. Ct. App. 1985); *Rothenberg v. Connecticut Mut. Life Ins. Co.*, 161 So. 2d 875, 877 (Fla. Dist. Ct. App. 1964); *Schlitz v. Schlitz*, 138 So. 2d 806, 806-07 (Fla. Dist. Ct. App. 1962); *L.P. Gunson & Co. v. Merritt*, (continued...)



<sup>19</sup>(...continued)

100 So. 2d 191, 192 (Fla. Dist. Ct. App. 1958); *McKenzie v. Chastain*, 184 S.E. 276, 277 (Ga. 1936); *Hales v. Worthy*, 43 Ga. 178 (1871); *Dougherty County Sch. Sys. v. Grossman*, 149 S.E.2d 920 (Ga. Ct. App. 1966); *Barnett v. Moss*, 106 S.E.2d 60 (Ga. Ct. App. 1958); *Padgett v. Padgett*, 13 S.E.2d 40 (Ga. Ct. App. 1941); *E. Fredericks, Inc. v. Felton Beauty Supply Co.*, 9 S.E.2d 198 (Ga. Ct. App. 1940); *Henry v. St. John's Hosp.*, 563 N.E.2d 410, 412 (Ill. 1990), *cert. denied*, 111 S. Ct. 1623 (1991); *Jessee v. Amoco Oil Co.*, 594 N.E.2d 1210, 1211 (Ill. App. Ct. 1992); *Burris v. John Blue Co.*, 358 N.E.2d 724, 725-26 (Ill. App. Ct. 1976); *Nahigian Bros., Inc. v. Rug Serv., Inc.*, 12 N.E.2d 42 (Ill. App. Ct. 1937); *GTE North Incorp. v. First State Ins. Co.*, No. 88 C 4376, 1990 U.S. Dist. LEXIS 15413, at \*6-\*7 (N.D. Ill. Oct. 25, 1990); *Thompson v. Stephenson*, 332 N.W.2d 341, 342 (Iowa 1983); *In re Estate of Williams*, 216 N.W.2d 568, 569-70, 573 (Iowa 1974); *Board of Educ. of Berea v. Muncy*, 239 S.W.2d 471, 473-74 (Ky. Ct. App. 1951); *St. Charles Parish Sch. Bd. v. GAF Corp.*, 512 So. 2d 1165, 1173 (La. 1987); *Preston Oil Co. v. Transcontinental Gas Pipe Line Corp.*, 594 So. 2d 908, 909-10 (La. Ct. App. 1991); *Bolin v. Hartford Accident & Indem. Co.*, 198 So. 2d 489 (La. Ct. App. 1967); *Callihan v. Monsour*, 34 So. 2d 521 (La. Ct. App. 1948); *Rogge v. Cafiero*, 134 So. 909, 910 (La. Ct. App. 1931); *Area Dev. Corp. v. Free State Plaza, Inc.*, 254 A.2d 355, 356-57 (Md. 1969); *Ladner v. Ladner*, 97 So. 2d 238, 239 (Miss. 1957); *Ogle v. Guardsman Ins. Co.*, 701 S.W.2d 469, 470-71 (Mo. Ct. App. 1985); *Koone v. Montgomery*, 114 S.W.2d 713 (Mo. Ct. App. 1938); *Civil Serv. Bar Ass'n v. City of N.Y.*, 474 N.E.2d 587, 589 (N.Y. 1984); *Ruben v. American & Foreign Ins. Co.*, 592 N.Y.S.2d 167, 171 (N.Y. App. Div. 1992); *Two Lincoln Square Assocs. v. New York City Conciliation and Appeals Bd.*, 427 N.Y.S.2d 424, 424 (N.Y. App. Div. 1980); *Stokes-Grimes Grocery Co. v. Hill*, 97 S.E. 468 (N.C. 1918); *In re Garner's Estate*, 148 P.2d 784 (Okla. 1944); *Ray v. Phillips Petroleum Co.*, 148 P.2d 784 (Okla. 1944); *Bigpond v. Mutaloke*, 105 P.2d 408, 410 (Okla. 1940); *Martin v. Mutaloke*, 105 P.2d 413, 415 (Okla. 1940); *Smith v. Plains Petroleum Corp.*, 25 P.2d 323, 325-26 (Okla. 1933); *Banister Continental Corp. v. Northwest Pipeline Corp.*, 724 P.2d 822 (Or. 1986); *Morgan v. Stimson Lumber Co.*, 618 P.2d 970, 973 (Or. Ct. App. 1980); *General Motors Acceptance Corp. v. Carter*, 361 S.E.2d 620 (S.C. 1987); *Commonwealth Lloyd's Ins. Co. v. Thomas*, 843 S.W.2d 486, 487 (Tex. 1993); *Public Citizen v. Third Court of* (continued...)

widespread nature of this practice, and although it is impossible to calculate the frequency with which vacatur upon settlement goes unreported, it surely happens with even greater frequency than reflected by reported decisions.

The prevalence of vacating judgments upon settlement reflects the fact that a primary purpose of the judiciary, as reflected in Article III of the Constitution, is to provide a forum for the resolution of real cases or controversies between actual litigants, and that a judgment is a means to this end. As this Court has declared:

In all civil litigation, the judicial decree is not the end but the means. At the end of the rainbow lies not a judgment, but some action (or cessation of action) by the defendant that the judgment produces — the payment of damages, or some specific performance, or the termination of some

<sup>19</sup>(...continued)

*Appeals*, 846 S.W.2d 284, 285 (Tex. 1993) (Doggett, J., concurring); *Harbison-Fisher Mfg. Co. v. Mohawk Data Sciences Corp.*, 840 S.W.2d 383, 383-84 (Tex. 1992); *Kidder, Peabody & Co. v. Lutheran Bhd.*, 840 S.W.2d 384 (Tex. 1992); *Raborn v. Davis*, 795 S.W.2d 716, 717 (Tex. 1990); *United Servs. Auto. Ass'n v. Lederle*, 400 S.W.2d 749 (Tex. 1966); *Swanson Broadcasting, Inc. v. Clear Channel Communications, Inc.*, 762 S.W.2d 360, 361 (Tex. Ct. App. 1988); *Butler v. State*, 481 S.W.2d 907 (Tex. Crim. App. 1972); *Salazar v. State*, 486 S.W.2d 323, 324 (Tex. Crim. App. 1972); *Duke v. Sears, Roebuck & Co.*, 446 S.W.2d 886, 887 (Tex. Civ. App. 1969); *Castro v. Highlands Ins. Co.*, 401 S.W.2d 689 (Tex. Civ. App. 1966); *Elchelberger v. Orr*, 392 S.W.2d 474, 474-75 (Tex. Civ. App. 1965); *St. Louis, B. & M. Ry. v. Texas Mexican Ry.*, 212 S.W.2d 502, 503 (Tex. Civ. App. 1948); *Polunsky v. Polunsky*, 152 S.W.2d 932, 933 (Tex. Civ. App. 1941); *Dilbeck v. Estep*, 145 S.W.2d 218, 219 (Tex. Civ. App. 1940); *Superior Oil Co. v. Blain*, 141 S.W.2d 428, 429 (Tex. Civ. App. 1940); *United Employers Casualty Co. v. Teer*, 142 S.W.2d 933, 934 (Tex. Civ. App. 1940); *Maryland Casualty Co. v. Brakebill*, 130 S.W.2d 306 (Tex. Civ. App. 1939); *Southern Underwriters v. Evans*, 112 S.W.2d 542 (Tex. Civ. App. 1938); *Cullen v. Ellis County Levee Improvement Dist.*, 77 S.W.2d 310, 311-12 (Tex. Civ. App. 1934); *San Jacinto Rice Co. v. Hamman*, 247 S.W. 500, 500-01 (Tex. Com. App. 1923).

conduct. . . . The real value of the judicial pronouncement — what makes it a proper judicial resolution of a “case or controversy” rather than an advisory opinion — is in the settling of some dispute *which affects the behavior of the defendant towards the plaintiff*.

*Hewitt v. Helms*, 482 U.S. 755, 761 (1987) (emphasis in original).<sup>20</sup>

Any curtailment of the lower courts’ discretion to vacate judgments will significantly lessen the ability of the courts to attend to actual disputes.

## 2. Vacation of a Judgment Upon Settlement Promotes the Efficient Use of Judicial Resources and Protects the Interests of Litigants.

In addition to disposing of numerous appeals, the availability of vacatur also discourages parties from waiting in the wings, in an attempt to take advantage of a favorable judgment while avoiding any effect of an unfavorable one. Affirmance of the judgment below reinforces that such litigants who fail to participate in an action in which they allegedly have an interest do so at their own risk.

The practice of vacatur upon settlement also protects the interests of litigants who wish to terminate lengthy and costly litigation by allowing them to settle on terms agreeable to the parties. By permitting vacatur, the courts remove what is

<sup>20</sup> See also *In re Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1302 (7th Cir. 1988) (“[L]itigation is conducted to resolve the parties’ controversies; precedent is a byproduct of resolving disputes rather than the *raison d’être* of the judicial system.”) (citations omitted); *Neary v. Regents of the Univ. of Cal.*, 834 P.2d 119, 124 (Cal. 1992) (subordinating the production of judicial pronouncements to the higher priority of resolving real disputes “does not undermine our integrity or demean our function. By providing a forum for the peaceful resolution of citizens’ disputes, we provide a cornerstone for ordered liberty in a democratic society.”).

sometimes a serious obstacle to settlement, and avoid the necessity of deciding numerous appeals, petitions for review, and potential retrials.

Although Izumi contends that vacatur upon settlement is a detriment to prejudgment settlement because “[i]t does not provide an incentive for settlement *before* a case goes to trial” (Pet. Br. 32) — its argument is based upon a simplistic and erroneous view of the realities of litigation and settlement. This view assumes that proceeding to trial and judgment is cost free, a premise which is patently untenable.<sup>21</sup> Parties incur substantial monetary costs trying a case, and the cost of settlement is virtually always affected by a judgment — either minimizing the cost to a prevailing defendant or increasing the demand of a successful plaintiff.

Balanced against Izumi’s unrealistic speculation that parties will proceed to trial merely because vacatur is available is the real and substantial evidence that the practice of granting vacatur results in a direct and immediate conservation of judicial and private resources. Permitting vacatur upon settlement ends the litigation, as it did this one, and avoids not only the hearing and deciding of an appeal, but also the extensive proceedings that ensue following a reversal at the appellate level. This procedure clears both the trial and appellate court dockets for other litigants who have actual, live disputes. See *Federal Data Corp. v. SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987) (refusal to allow vacatur upon settlement “is wasteful of the resources of the judiciary”).<sup>22</sup>

<sup>21</sup> See *Neary*, 834 P.2d at 122 (the contention that availability of vacatur upon settlement renders going to trial cost-free “is rather like saying death is only temporary, apart from its permanency”).

<sup>22</sup> See also *Nestle Co. v. Chesters Mkt., Inc.*, 756 F.2d 280, 282 (2d Cir. 1985) (“[H]ere we are faced with a settlement that will bring pending litigation to an end. Because the policies favoring finality of judgments are intended to conserve judicial and private resources, the denial of the motion for vacatur is counterproductive because it will lead to more rather than less litigation.”); *Memorial Hospital*, 862 F.2d at 1302 (“Any dispo- (continued...)”).



Vacatur upon settlement further allows courts to protect defendants from substantial inequities that may result from an application of offensive nonmutual collateral estoppel. As Professor Currie observed, inequity occurs if a defendant successfully demonstrates in 24 separate lawsuits that its product design is not defective, but after losing the issue in the 25th suit, the defendant is thereafter forever precluded from relitigating the issue against future plaintiffs. See Brainerd Currie, *Mutuality of Collateral Estoppel: Limits of the Bernhard Doctrine*, 9 Stan. L. Rev. 281 (1957). In such situations, the possibility of obtaining vacatur upon settlement offers the defendant an opportunity to avoid such a clearly inequitable result. The availability of vacatur upon settlement, therefore, also allows courts in the proper exercise of their discretion to avert the various inequities associated with nonmutual offensive preclusion.

### 3. Vacation of the District Court Judgments Does Not Implicate the Public Interest in *Stare Decisis* and Preservation of Precedent.

In arguing a significant public interest in the issue at bar, Izumi fails to distinguish between vacatur of a district court judgment and vacatur of a judicial opinion. Philips and Windmere neither sought nor obtained the vacation of any judicial opinion and the issue was not reached by the Federal Circuit. The only issue here is the vacation of two unreported judgments entered on a jury verdict which merely resolved a private dispute between Windmere and Philips.<sup>23</sup>

<sup>22</sup>(...continued)

sition that the parties to the litigation unanimously endorse has much to be said for it — it produces peace for the parties and frees scarce judicial time to attend to litigants who need it.”).

<sup>23</sup> On remand from the Federal Circuit, the district court entered an order insuring that there were no collateral effects from any prior proceedings (J.A. 171a). The district court’s opinion on Philips’ motion for judgment notwithstanding the verdict was not expunged. See *U.S.* (continued...)

The decision in *In re Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), cited by Izumi to support its argument that vacatur harms the public interest in precedent (Pet. Br. 33), is inapposite. *Memorial Hospital* was almost entirely predicated on the concern for the precedential value of *opinions*. The court’s decision was based “on the ground that an *opinion* is a public act of the government, which may not be expunged by private agreement.” *Id.* at 1300 (emphasis added); see also *id.* at 1303.

Although Izumi blurs the clear distinction between opinions and judgments, this fundamental distinction, and the vastly different level of public interest that attaches to opinions and judgments, has been emphasized by courts explicitly addressing the impact of vacatur. See, e.g., *Home Indem. Co. v. Farm House Foods Corp.*, 770 F. Supp. 1348, 1350 (E.D. Wis. 1991) (authority concerning vacatur of judgments unrelated to request for vacatur of a district court decision and order as “a decision and order is entirely different from a judgment”).

Accordingly, Izumi’s contention that vacatur of two unpublished judgments deprived the public of valuable precedent is simply incorrect on the facts of the case at bar.

## II.

### THE COURT OF APPEALS PROPERLY DETERMINED THAT IZUMI IS NOT A PARTY AND DOES NOT HAVE STANDING; THAT ISSUE HAS NOT PROPERLY BEEN PRESENTED FOR REVIEW AND THE WRIT SHOULD BE DISMISSED.

Although reversal of the lower court’s determination that Izumi lacked standing was necessary for Izumi to raise the merits of vacatur before this Court, Izumi did not present any question regarding standing in its petition for certiorari.

<sup>23</sup>(...continued)

*Philips Corp. v. Windmere Corp.*, 1992-1 Trade Cas. (CCH) ¶ 69,778 (S.D. Fla. 1991).



Therefore, Izumi is now bound by the lower court's decision that it lacked standing to object and for this reason, the writ of certiorari should be dismissed.<sup>24</sup>

Even if Izumi had properly presented the issue for review, the court of appeals' determination that Izumi lacked standing was sound, and should not be disturbed absent an abuse of discretion. See *NAACP v. New York*, 413 U.S. 345, 365-66 (1973) (intervention must be timely; lower court's decision regarding timeliness is subject to reversal only for abuse of discretion). The court of appeals did not abuse its discretion in refusing to accord Izumi standing to intervene to object to vacatur both because of Izumi's attenuated connection to the judgments and because of Izumi's delay in seeking to protect its alleged interest.

The only interest in these judgments asserted by Izumi is that it is the indemnitor of Windmere, which supports vacatur of the judgments, the indemnitor of Sears, which seeks to use the unfair competition judgment collaterally, and that it may seek to use the antitrust judgment offensively if its antitrust claim is ever revived. As shown below, this interest is, at best, minimal and simply insufficient to confer standing under the circumstances here.

<sup>24</sup> The issue of Izumi's standing has never been properly presented to the Court. Izumi was not a "party" entitled to petition for certiorari under 28 U.S.C. § 1254(1), and its petition never sought review of the decision below that Izumi lacked standing. Although non-parties may seek review of such a decision, see, e.g., *International Union, UAW, Local 283 v. Scofield*, 382 U.S. 205, 209 (1965), Izumi never did so. Its petition presented a single "question presented" addressed to the merits of vacatur, and that question did not "fairly include" the standing issue. See Sup. Ct. R. 14.1(a). Only after the petition was granted did Izumi recognize the issue and, contrary to Sup. Ct. R. 24.1(a), add a question presented and substantial argument on the standing issue in its Brief on the Merits. Hence, the Court should dismiss the writ of certiorari. See, e.g., *New York v. Uplinger*, 467 U.S. 246, 248 (1984) (per curiam); *Burrell v. McCray*, 426 U.S. 471, 472 (1976) (Stevens, J., concurring); *The Monrosa v. Carbon Black Export, Inc.*, 359 U.S. 180, 184 (1959); *Rice v. Sioux City Memorial Park Cemetery, Inc.*, 349 U.S. 70, 79 (1955).

Izumi now cites Fed. R. Civ. P. 24(a)(2) — applicable only to the district courts — in support of its claim that it should have been permitted to intervene in the court of appeals. Rule 24(a)(2), however, "obviously" applies only to a "significantly protectable interest." *Donaldson v. United States*, 400 U.S. 517, 531 (1971). Izumi has no such interest here. First, Philips and Windmere have exchanged general releases and there is no possibility of Izumi having to indemnify Windmere in the future on the same claim. Second, although Izumi attempts to assert Sears' interest in the unfair competition judgment, Sears did not object to the joint motion to vacate, and was apparently content to pursue its appeal to the Federal Circuit of the order reinstating Philips' unfair competition claim.

Third, Izumi's alleged interest in using the antitrust judgment offensively against Philips is, at best, questionable. See *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 329-30 (1979); see also *supra*, pp. 22-23. Izumi's antitrust claim has been dismissed with prejudice, and repeated motions for reconsideration have been denied. Izumi cannot even attempt to assert nonmutual offensive collateral estoppel unless that dismissal is reversed. Thus, Izumi's alleged interest in either judgment is hardly a "significantly protectable interest." See *Donaldson*, 400 U.S. at 531.

While this Court has permitted non-parties to intervene in an action and then petition for certiorari, it has done so only when the non-party was the real party in interest and was asserting significantly greater interests in the results than Izumi can here. In both *Banks v. Chicago Grain Trimmers Ass'n*, 390 U.S. 459 (1968), *cert. granted*, 389 U.S. 813 (1967) and *Hunter v. Ohio ex rel. Miller*, 396 U.S. 879 (1969), the petitioners, the real parties in interest, had been represented below by governmental entities, which had declined to pursue appeals to this Court. On the non-parties' proper motion, the Court permitted the petitioners to intervene.

The Court also permitted intervention in *International Union, UAW, Local 283 v. Scofield*, 382 U.S. 205 (1965). That case, however, involved the unique situation of unions

that were successful parties in National Labor Relations Board hearings seeking to intervene in the appeals brought by the losing parties, because the technical defendant in those proceedings was the Board, not the unions. *Id.* at 222. Izumi's interest in the Florida litigation does not approximate that of the petitioners in *Banks*, *Hunter* or *Scofield*.

The parties permitted to intervene in cases cited by Izumi also had significantly more substantial interests. For example, Izumi relies on *Triax Co. v. TRW, Inc.*, 724 F.2d 1224 (6th Cir. 1984), but that case demonstrates the relative insignificance of Izumi's alleged interest here. In *Triax*, intervenor was a patent holder who had assigned his rights under a patent while maintaining rights of reversion. *Id.* at 1226-27. The assignee sued an infringer, the patent was held invalid and the assignee then chose not to appeal. *Id.* at 1226. Under Fed. R. Civ. P. 24(a)(2), the district court permitted the patent holder to intervene because he was faced with the prospect of being barred by collateral estoppel from ever again exercising his rights under the patent. *Id.* at 1227.<sup>25</sup>

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<sup>25</sup> In each of the other cases cited by Izumi in support of its intervention argument (*see* Pet. Br. 14 n.6), the intervenor had a palpably greater interest in the underlying litigation than Izumi does here. In *Goodman v. Heublein, Inc.*, 682 F.2d 44 (2d Cir. 1944), the district court had awarded plaintiff attorneys' fees, but before the appeal plaintiff fired his attorney and assigned the fee award to his attorney. The Second Circuit allowed the attorney to intervene to appeal the fee award because plaintiff was no longer protecting the attorney's interest. *Id.* at 47. In *United States v. Bursey*, 515 F.2d 1228 (5th Cir. 1974), the district court ordered that bond money posted by a criminal defendant be paid into court as reimbursement for costs. The parties actually providing the funds intervened to appeal the order — without opposition from the government — as the real parties in interest. *Id.* at 1232. Finally, in *Hurd v. Illinois Bell Tel. Co.*, 234 F.2d 942, 944 (7th Cir.), *cert. denied*, 352 U.S. 918 (1956), the court reluctantly permitted intervention by persons similarly situated to plaintiff, stating "although intervention after judgment is not to be lightly permitted this cause is so fraught with elements of possible prejudice to petitioner and other pensioners similarly situated, that we, in the exercise of a sound discretion conclude that our order permitting petitioner to intervene should be allowed to stand."

Izumi attempts to portray its situation as similar to the intervenor's in *Triax* by arguing that the vacatur order "casts a cloud over Izumi's entire rotary shaver business in the United States" because of "the spectre of lawsuits by Philips against any distributor who agrees to carry Izumi rotary shavers" (Pet. Br. 15). In the nine years since the Florida action was filed, Izumi has never identified any other distributor or even any potential distributor who feels so threatened. This alleged potential harm from "the spectre of lawsuits" wanes in comparison to the real burdens imposed on the *Triax* intervenor who would have been forever precluded from asserting his patent.

It is likewise clear that Izumi waited too long to protect whatever interests it may have had in these judgments. *See supra*, pp. 6, 9. Izumi's conscious delay in seeking to intervene to protect its alleged interest until after the Philips-Windmere settlement was consummated and Philips had given up its right to appeal is sufficient grounds to deny leave to intervene. *See Farmland Dairies v. Commissioner of N.Y. State Dep't of Agric. and Mkts.*, 847 F.2d 1038, 1044 (2d Cir. 1988) (court affirmed the denial of intervention of those who remained deliberately silent until after the parties had completed their settlement).

Izumi does not have standing, the court of appeals properly exercised its discretion in denying standing, and since Izumi is not a "party," the writ should be dismissed.

## CONCLUSION

The writ of certiorari should be dismissed or the decision of the Court of Appeals for the Federal Circuit should be affirmed.

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May 21, 1993



EXHIBIT A

IN THE

**United States District Court**

**EASTERN DISTRICT OF CALIFORNIA**

---

JAMES S. SCOTT, Regional Director of the  
Thirty-Second Region of the National Labor  
Relations Board, for and on behalf  
of the NATIONAL LABOR RELATIONS BOARD,  
*Petitioner,*

v.

IRON WORKERS LOCAL 118, INTERNATIONAL  
ASSOCIATION OF BRIDGE, STRUCTURAL AND  
ORNAMENTAL IRON WORKERS, AFL-CIO  
*Respondent.*

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**ORDER**

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On November 23, 1988, the United States Court of Appeals for the Ninth Circuit issued an order remanding the above-referenced action to this court to determine whether to vacate its judgment. The issue was fully briefed by the parties and came on for hearing on the court's regularly scheduled law and motion calendar on February 21, 1989. After hearing, the court took the matter under submission. For the reasons set forth below, the court will not vacate its judgment.

**I**

**PROCEDURAL HISTORY**

The National Labor Relations Board (the "Board") brought this action under section 10(1) of the National Labor Relations Act to enjoin picketing by the Iron Workers

Local 118 ("Iron Workers"). On May 11, 1988, the court denied the petition for preliminary injunction. The court found that the Iron Workers' conduct, if true, came within the scope of an outstanding injunction issued by the Ninth Circuit. Since the alleged conduct was already prohibited by an extant injunction, the court concluded that it would be futile to issue a second injunction. On June 16, 1988, the court denied the Board's request for reconsideration of that order.

On July 1, 1988, the Board filed a Petition for Adjudication in Civil Contempt with the Ninth Circuit, alleging that the activities complained of were in violation of the Ninth Circuit's Order. Then, on July 19, 1988, the Board filed an appeal from this court's order denying the petition for preliminary injunction. The following day, however, the Board withdrew the administrative complaint underlying the petition for injunctive relief. In light of this, the parties stipulated that the appeal was moot. Accordingly, on November 23, 1988, the Ninth Circuit dismissed the appeal as moot and remanded the matter to this court to determine whether to vacate its judgment in light of the teachings of *Ringsby Truck Lines v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982).

## II

### ANALYSIS

In a well-established line of cases, the Supreme Court has taught that when a case becomes moot on appeal, the appellate court should vacate the lower court judgment and order dismissal of the action. See, e.g., *Burke v. Barnes*, 479 U.S. 361, 365 (1987); *United States Department of Treasury v. Galioto*, 477 U.S. 556, 560 (1986); *City of Mesquite v. Aladdin's Castle, Inc.*, 455 U.S. 283, 288 n.9 (1982); *Great Western Sugar Co. v. Nelson*, 442 U.S. 92, 93-94 (1979); *United States v. Munsingwear*, 340 U.S. 36,

39-40 (1950). In fact, if a proper request is made, it is said to be the "duty" of the appellate court to vacate the lower court judgment. *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267 (1936). The purpose of this rule is to "clear the path for future relitigation of the issues between the parties and eliminate a judgment, review of which was prevented through happenstance." *Munsingwear*, 340 U.S. at 40. In this way, "[no party] is prejudiced by a decision which in the statutory scheme was only preliminary." *Id.* The basic concern underlying this doctrine, therefore, is to protect parties from the res judicata effect of a judgment where the opportunity to appeal has been lost.

The Ninth Circuit has recognized a discretionary exception to this rule where the losing party was responsible for rendering the case moot at the appellate level. See *Ringsby Truck Lines v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982).<sup>1</sup> In *Ringsby*, the appellant sought to vacate an arbitration award which had been upheld by the district court. Pending appeal, the parties settled and agreed that the district court judgment should be vacated. The court agreed that the settlement mooted the appeal, but refused to vacate the lower court judgment. The court was concerned that "[i]f the effect of post-judgment settlements were automatically to vacate the trial court's judgment, any litigant dissatisfied with a trial court's findings would be able to have them wiped from the books." *Ringsby*, 686 F.2d at 721. The court distinguished the case from *Munsingwear*, which dealt only with mootness caused by "happenstance," and observed that "when the appellant has by his own act caused the dismissal of the appeal . . . , he is in no position to complain that his right of review of an adverse lower court judgment

<sup>1</sup> Other circuits have recognized a similar exception. See, e.g., *United States v. Garde*, 848 F.2d 1307, 1310-11 (D.C. Cir. 1988); *State of Wisconsin v. Baker*, 698 F.2d 1323, 1330-31 (7th Cir.), cert. denied, 463 U.S. 1207 (1983).



has been lost." *Id.* at 722. Under these circumstances, the court held, it is not the duty of the appellate court to direct dismissal of the action. Rather, the case should be remanded to the district court to decide whether to vacate its judgment.

The Supreme Court has looked upon such exceptions with disfavor. See *New Left Education Project v. Board of Regents of the University of Texas*, 414 U.S. 807 (1973); see also *Great Western Sugar Co. v. Nelson*, 442 U.S. 92 (1973). *New Left* involved two university rules which the district court had declared invalid. Pending appeal, the Regents repealed the rules. The Fifth Circuit found that because the Regents had mooted the appeal by their own actions, the necessity of protecting their right to review "disappear[ed]." *New Left*, 472 F.2d 218, 221 (5th Cir. 1973). Moreover, the court explained, "dismissal of the suit, as distinguished from dismissal of the appeal, might result in unfairness to the appellee." *Id.* (quoting *Cover v. Schwartz*, 133 F.2d 541, 547 (2d Cir. 1943)). The court distinguished *Duke Power Co.* and *Munsingwear* as having dealt only with mootness caused by happenstance. Where the appellant rendered the case moot by his own actions, the court concluded, the proper practice was to declare the case moot for appellate purposes, leaving the district court judgment intact. The Supreme Court summarily reversed this decision and remanded the case to the district court with directions to dismiss the case as moot. *New Left*, 414 U.S. 807 (1973).<sup>2</sup>

<sup>2</sup> In *Great Western Sugar Co.*, the appeal became moot because arbitration proceedings had been completed. The Tenth Circuit dismissed the appeal as moot but, without explanation, allowed the judgment of the trial court to stand. The Supreme Court found this "totally at odds with the holding of *Duke Power*." *Great Western Sugar Co.*, 442 U.S. at 93. The Court went on to suggest that "[t]he Court of Appeals' disposition of this case may have been the

(continued...)

The Supreme Court's reversal in *New Left* appears to have implicitly rejected *Ringsby*.<sup>3</sup> Although the Circuit has noted criticism of its decision, see, *Harrison Western Corp. v. United States*, 792 F.2d 1391, 1394 n.2 (9th Cir. 1986), subsequent cases have been distinguished without retreating from the principles enunciated in *Ringsby*.<sup>4</sup> Furthermore,

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<sup>2</sup>(...continued)

result of a desire to show approval of the reasoning of the District Court," but stated that, "that motive cannot be allowed to excuse its failure to follow the teachings of *Duke Power Co.*" *Id.* at 94.

<sup>3</sup> In *Ringsby*, the Ninth Circuit purports to rely on the distinction between litigants who are and are not responsible for rendering their case moot at the appellate level. Surprisingly absent from the opinion, however, is any reference to *New Left*.

<sup>4</sup> In *Kitlutsisti v. Arco Alaska, Inc.*, 782 F.2d 800 (9th Cir. 1986), the appeal was mooted by the expiration of an injunction issued by the district court. There was nothing in the record to suggest that any of the appellants "changed their positions and mooted the case to avoid the preclusive effect of the district court's judgment." *Kitlutsisti*, 782 F.2d at 801. Accordingly, the court found that *Ringsby* did not apply and remanded with directions to vacate the district court judgment.

In *Harrison Western Corp. v. United States*, 792 F.2d 1391 (9th Cir. 1986), the district court ruled that a contractor had properly terminated its contract with the government. Pending appeal, the parties signed a new contract which covered the same subject matter. The court of appeals concluded that, as a matter of law, the government abandoned all claims under the first contract by signing the second contract without a reservation of rights, and dismissed the appeal as moot. The court distinguished the case from *Ringsby*, explaining that because the very act which rendered the case moot also precluded the government from bringing any claim related to the first contract, the collateral effects of the district court judgment were adequately preserved by simply

(continued...)

since the Ninth Circuit has remanded the instant case in light of *Ringsby*, the court apparently considers *Ringsby* to govern this case. For this reason, I must decide whether it is appropriate to vacate the judgment.

In making this determination, the district court is instructed to consider the equities and hardships in the particular case and to balance "between the competing values of finality of judgment and right to relitigation of unreviewed

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<sup>4</sup>(...continued)

dismissing the appeal. Thus, the court concluded that this was "not . . . a *Ringsby* problem" at all. *Harrison*, 792 F.2d at 1394. Therefore, the court "adopt[ed] the usual practice and vacat[ed] the judgment of the district court with instructions to dismiss." *Id.*

The *Harrison* court further distinguished *Ringsby* on the ground that here "the act which rendered the controversy moot required the participation of *both* parties." *Id.* at n.2. The court went on to state that "[i]nsofar as the prevailing party causes an appeal to become moot, preservation of the district court judgment is problematic. By leaving that judgment in place, the appellate court may allow the prevailing party to preclude an appeal while retaining the collateral effects of its trial court victory." *Id.* In that situation, the appellate court should be "particularly wary" of letting the lower court judgment stand. *Id.* These comments and their implications relative to *Ringsby* are particularly troublesome, since it is clear that in *Ringsby* both parties had to have agreed to the settlement. In this regard, I also note that the Second Circuit has criticized the Ninth Circuit's reliance on its decision in *Cover v. Schwartz* to support *Ringsby*. See *Nestle Co., Inc. v. Chester's Market, Inc.*, 756 F.2d 280, 283 n.4 (2d Cir. 1985). As explained by the Second Circuit, *Cover*, when read in light of *New Left*, "stands at best for the proposition that a plaintiff who has lost in the district court may not void the adverse judgment by unilaterally abandoning claims for relief and thereby leav[ing] the defendant vulnerable to renewed litigation." *Id.* at 283. Thus, to apply *Cover* where both parties agreed to vacation as part of a settlement was a "misreading" of that decision. *Id.* at 283 n.4.

disputes." *Ringsby*, 686 F.2d at 722. How this standard is to be applied is far from clear. Nevertheless, I begin by recognizing that since the Ninth Circuit remanded under *Ringsby*, the court must have made some determination.<sup>5</sup> At the very least, the court has determined that the Board caused the appeal to become moot by their act of withdrawing the underlying administrative complaint. On the other hand, if the court determined that the Board's actions were taken in a deliberate attempt to destroy the preclusive effect of the district court judgment, the appropriate course under *Ringsby* appears clear — namely, that the judgment should not be vacated — and there would be nothing for this court to decide on remand. Thus, I must conclude that the appellate court determined that the Board caused the appeal to become moot by withdrawing the administrative complaint and that my task upon remand is to evaluate whether its motives for doing so suggest an attempt to take unfair advantage of the process.

In their briefs and oral argument before this court, the Board argued that it withdrew the administrative complaint, at least in part, because the Iron Workers had ceased picketing. The sole reason given to the administrative law judge for withdrawing the complaint, however, was that the Board had decided to pursue contempt proceedings before the Ninth Circuit. Those proceedings, however, had been instituted several weeks before the appeal was filed. Significantly, the Board withdrew the complaint only one day after the appeal was filed. Thus, the Board's assertion that it was "fully prepared — indeed, committed — to prosecute the appeal" is less than credible. The more likely inference from this sequence of events is that the Board had already made

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<sup>5</sup> Since the court clearly recognizes that in the usual case, its duty is to dismiss with instructions to vacate the trial court's judgment, see, e.g., *Harrison*, 792 F.2d at 1393, the court must have made some determination that justified departing from that procedure.

the decision to withdraw the administrative complaint at the time the appeal was filed. The only reason, then, for filing the appeal would have been in hopes of being able to vacate the adverse lower court judgment by filing the appeal and then causing it to become moot by withdrawing the administrative complaint. This inference is supported by the declarations of Iron Workers' attorneys Sokol and Roger, who attest that, in their experience, the Board has never withdrawn an administrative complaint, even when the alleged unlawful activity has ceased completely, except in those situations where it has decided that the complaint has no substantive merit. Under these circumstances, I find that the equities do not favor vacating the judgment.

Accordingly, the court declines to vacate its judgment. However, because this procedure appears to be contrary to Supreme Court teachings, I urge the Board to appeal this decision to test the viability of *Ringsby*. Finally, the Iron Workers have requested sanctions against the Board. Given the fact that an exception to the duty of the appellate court to vacate the lower court judgment is questionable, I do not find that sanctions are justified.

IT IS SO ORDERED.

DATED: June 1, 1989.

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LAWRENCE K. KARLTON, CHIEF JUDGE  
UNITED STATES DISTRICT COURT



FILED  
JUN 21 1993

CLERK

IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

PETITIONER'S REPLY BRIEF ON THE MERITS

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June 21, 1993

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## TABLE OF CONTENTS

Page

I. THIS COURT'S PRECEDENTS DO NOT REQUIRE VACATUR UPON SETTLEMENT . . . . .	3
II. ESTABLISHED COLLATERAL ESTOPPEL LAW ALREADY STRIKES THE BALANCE BETWEEN FINALITY AND FAIRNESS. . . . .	8
III. CONSIDERATIONS OF JUDICIAL EFFICIENCY, THE PUBLIC INTEREST, AND THIRD PARTY INTERESTS SUPPORT GENERALLY DENY- ING VACATUR . . . . .	12
A. Judicial Efficiency. . . . .	13
B. The Public Interest . . . . .	15
C. The Effect on Third Parties. . . . .	16
IV. IZUMI IS A PROPER INTERVENOR AND PARTY TO THIS APPEAL. . . . .	18
V. CONCLUSION . . . . .	20
APPENDIX — <i>Benavides v. Jackson Nat'l Life Ins. Co.</i> , No. 92-F-65 (D. Colo. May 6, 1993) . . . . .	1a

## TABLE OF AUTHORITIES

*Cases:*

<i>Benavides v. Jackson Nat'l Life Ins. Co.</i> , No. 92-F-65 (D. Colo. May 6, 1993). . . . .	14, 15
<i>Blonder-Tongue Labs., Inc. v. University of Illinois Found.</i> , 402 U.S. 313 (1971). . . . .	2, 8, 9, 10, 15, 16
<i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141 (1989) . . . . .	15, 16
<i>Buck's Stove &amp; Range Co. v. American Fed'n of Labor</i> , 219 U.S. 581 (1911) . . . . .	6
<i>Cardinal Chem. Co. v. Morton Int'l, Inc.</i> , 124 L. Ed. 2d 1 (1993). . . . .	5, 6, 7, 15, 16
<i>Chevron Oil Co. v. Huson</i> , 404 U.S. 97 (1971) . . . . .	17

(ii)

<i>Cases, continued:</i>	<u>Page</u>
<i>Chicago &amp; North Western Ry. v. Atchison, Topeka, &amp; Santa Fe Ry.</i> , 387 U.S. 326 (1967) . . . . .	6
<i>Clarendon Ltd. v. Nu-West Indus., Inc.</i> , 936 F.2d 127 (3rd Cir. 1991) . . . . .	5
<i>Clarke v. United States</i> , 915 F.2d 699 (D.C. Cir. 1990). . . . .	5
<i>Commonwealth Land Title Ins. Co. v. Corman Constr., Inc.</i> , 61 U.S.L.W. 3818 (U.S. June 7, 1993) . . . . .	18
<i>Compco Corp. v. Day-Brite Lighting, Inc.</i> , 376 U.S. 234 (1964). . . . .	15
<i>Constangy, Brooks &amp; Smith v. NLRB</i> , 851 F.2d 839 (6th Cir. 1988) . . . . .	5
<i>Continental Casualty Co. v. Fibreboard Corp.</i> , 113 S. Ct. 399 (1992). . . . .	6, 7
<i>Dakota County v. Glidden</i> , 113 U.S. 222 (1885). . . . .	6
<i>Davis v. City and County of San Francisco</i> , 984 F.2d 345 (9th Cir. 1993) . . . . .	5
<i>Edelman v. Jordan</i> , 415 U.S. 651 (1974) . . . . .	6
<i>Huron Holding Co. v. Lincoln Mine Operating Corp.</i> , 312 U.S. 183 (1941) . . . . .	10
<i>James B. Beam Distilling Co. v. Georgia</i> , 111 S. Ct. 2439 (1991). . . . .	17
<i>Karcher v. May</i> , 484 U.S. 72 (1987) . . . . .	5
<i>Mills v. Green</i> , 159 U.S. 651 (1895) . . . . .	6
<i>National Union Fire Ins. Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) . . . . .	3, 5
<i>New York v. Uplinger</i> , 467 U.S. 246 (1984). . . . .	19
<i>Parklane Hosiery Co. v. Shore</i> , 439 U.S. 322 (1979). . . . .	2, 8, 9, 10
<i>Peters v. Kiff</i> , 407 U.S. 493 (1972). . . . .	19
<i>Pierce v. Underwood</i> , 487 U.S. 552 (1988). . . . .	6
<i>Sears, Roebuck &amp; Co. v. Stiffel Co.</i> , 376 U.S. 225 (1964). . . . .	15

(iii)

<i>Cases, continued:</i>	<u>Page</u>
<i>Standefer v. United States</i> , 447 U.S. 10 (1980). . . . .	12
<i>Stewart v. Southern Ry.</i> , 315 U.S. 784 (1942) . . . . .	5
<i>United States v. Garde</i> , 848 F.2d 1307 (D.C. Cir. 1988) . . . . .	5
<i>United States v. Mendoza</i> , 464 U.S. 154 (1984) . . . . .	7, 12
<i>United States v. Munsingwear</i> , 340 U.S. 36 (1950). . . . .	passim
<i>United States v. Western Elec. Co.</i> , 900 F.2d 283 (D.C. Cir.), cert. denied sub nom. <i>MCI Communications Corp. v. United States</i> , 498 U.S. 911 (1990) . . . . .	4
<i>Wainwright v. Sykes</i> , 433 U.S. 72 (1977). . . . .	10

*Statutes and Rules:*

28 U.S.C. §2106. . . . .	3
Sup. Ct. R. 14.1(a) . . . . .	19
Sup. Ct. R. 24.1(a) . . . . .	19

*Periodicals and Publications:*

1B James W. Moore et al., <i>Moore's Federal Practice</i> (2d ed. 1993) . . . . .	10
Robert L. Stern et al., <i>Supreme Court Practice</i> § 4.29 (6th ed. 1986) . . . . .	6

*Other Authorities:*

Restatement (Second) of Judgments (1982). . . . .	4, 10, 11, 12
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## PETITIONER'S REPLY BRIEF ON THE MERITS

A judge and two juries in Florida found that Philips had no valid trade dress rights and violated the antitrust laws. A judge in Illinois then determined that Philips had a full and fair trial on the trade dress claim in Florida and therefore gave the Florida judgment preclusive effect to avoid relitigation of those issues. The question in this case is whether the Federal Circuit was wrong to vacate the Florida judgment and thereby free Philips of that preclusive effect based on a rule of automatic vacatur when the parties to an appeal settle their dispute.

Respondents and the Government have offered no persuasive argument to support such a rule. Indeed, respondents do not even try, but instead defend the decision below by mischaracterizing it as a case-specific exercise of "discretion"<sup>1</sup> (RBr 12-30; *Id.* at 31-38 (defending "practice of *permitting* courts to vacate judgments") (emphasis added)).<sup>2</sup> And a careful analysis of precedent and the relevant policies supports the *opposite*

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<sup>1</sup>Citations are: Respondents' Brief "RBr," the Government's Brief "USBr," and Product Liability Advisory Council's Brief "PLACBr."

<sup>2</sup>An absolute rule compelling vacatur at the request of settling parties, without any exercise of discretion by the court of appeals, is not seriously urged by either respondents, the Government, or PLAC. See RBr 18-21; USBr 10 n.10, 18 n.19, 26 n.26, 27 n.27; PLACBr 13. Yet, as the Government recognizes (USBr 8 n.9), the Federal Circuit's implementation of the practice of granting vacatur at the request of settling parties is automatic. It refused to consider any of the compelling factors in this case which militate so strongly against vacatur, and respondents' characterization of the Federal Circuit's decision as a fact-intensive evaluation with a case-specific decision is totally unsupported by the Federal Circuit's opinion.

approach — a general rule *against* vacatur when private parties simply settle on appeal.<sup>3</sup>

To begin with, the question of when, if at all, to vacate district court judgments on settlement is fully open to proper resolution on its merits. Precedents have not given the question an answer, or even full consideration in an adversarial context. In particular, the question is not resolved by *United States v. Munsingwear*, 340 U.S. 36 (1950), which deals with vacatur when mootness is caused by extra-litigation events, i.e., by “happenstance.”

On the merits, the vacatur question requires balancing of the judicial system’s interest in finality — elaborated in this Court’s decisions approving nonmutual collateral estoppel<sup>4</sup> — with an assessment of the fairness to a losing party of giving an unreviewed judgment preclusive effect. In fact, the law of preclusion already strikes that balance firmly in favor of finality. As long as appeal is available as a matter of law, preclusive effect can be given a district court judgment, even if it has not yet been or never will be reviewed on appeal. It leaves to the court considering preclusion (here, the Illinois court) any case-specific determinations that might make preclusion unfair. A rule against vacatur retains that safety valve to protect fairness concerns while respecting finality interests. But a rule of automatic vacatur, such as was applied by the Federal Circuit here, obliterates finality regardless of fairness.

A rule against vacatur on settlement not only accords with the balance of interests struck by the law of collat-

<sup>3</sup>The Government repeatedly argues for the application of special considerations in government cases (USBr 17, 18 n.18, 19, 24). That question is not presented in this case.

<sup>4</sup>*Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313 (1971); *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979).

eral estoppel, but should predictably produce less, rather than more, litigation. Among other things, a rule against vacatur promotes settlement prior to trial. The rule also serves other public interests and the interests of third parties.

Finally, Izumi should have been allowed to intervene in this case to oppose vacatur. Izumi has a large stake in the outcome, and it clearly and in a timely manner brought this issue before first the Federal Circuit and now this Court.

#### I. THIS COURT’S PRECEDENTS DO NOT REQUIRE VACATUR UPON SETTLEMENT

Whether and in what circumstances a court of appeals should order vacatur of a lower court’s judgment when the parties on appeal settle their claims is a question of federal common law. Contrary to respondents’ apparent suggestion (RBr 18), no statute or rule answers this question.<sup>5</sup> Nor does the answer lie in the Constitution’s case-or-controversy requirement. That requirement provides standards for determining when a case becomes moot, but as the Government acknowledges (USBr 7-8), it does not mandate vacatur as a remedy in cases of mootness.<sup>6</sup>

<sup>5</sup>Although appellate courts are granted broad supervisory authority by 28 U.S.C. § 2106, none of the courts suggest that the statute *prescribes* how that authority should be exercised with respect to the district court judgment when parties settle on appeal. See *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762, 765 (9th Cir. 1989) (citing § 2106 and denying motion to vacate). Accordingly, there is no “statutory construction” that controls.

<sup>6</sup>If anything, Article III should support a rule *against* vacatur. The most natural meaning of that prohibition in a moot case would be that an appellate court should simply dismiss the appeal, thereby removing the case from *its* jurisdiction, and take no substantive action such as ordering vacatur of the judgment below.

The Court's precedents firmly establish that a district court judgment should be vacated to prevent unfair collateral consequences when mootness arises by extra-litigation events, *i.e.*, "happenstance."<sup>7</sup> They do not, however, indicate that vacatur is required when mootness arises out of the parties' voluntary settlement. Indeed, despite vigorous efforts, respondents and the Government are simply unable to establish that the Court has already conclusively resolved this question (RBr 17; USBr 9-10). This appeal presents the *first* opportunity for the Court to consider the issue of vacatur on settlement in an adversarial context, and to define the proper mode of analysis for the courts of appeals.

*Munsingwear* itself did not address mootness resulting from settlement.<sup>8</sup> Moreover, this Court has strongly sug-

<sup>7</sup>*Munsingwear*, 340 U.S. at 40. Respondents assert that *Munsingwear* (dealing with pricing of a regulated product) involved mootness caused by the action of a party, the United States, rather than happenstance, because it was U.S. governmental action (deregulation) that led to the mootness. The Court in *Munsingwear*, however, never so characterized the action. Indeed, the Government acknowledges that the *Munsingwear* mootness was due to happenstance (USBr 11). See note 8, *infra*.

<sup>8</sup>Nor do cases cited by the Government at USBr 12, 13 n.12. Moreover, these and other cases involving a government as a party illustrate an important point for *government* cases: a change of policy can moot a case through new legislation, new regulations, expiration of administrative orders, or new publicly announced interpretations of governing law. When that happens, appellate review is made unavailable "as a matter of law," Restatement (Second) of Judgments §28 (1982), and not simply by the party's choice as a *litigant*. Such a formal change of government policy is not purely a litigation decision but, instead, is a legal action having "independent legal significance." *United States v. Western Elec. Co.*, 900 F.2d 283, 297 (D.C. Cir.), *cert. denied sub nom. MCI Communications Corp. v. United States*, 498 U.S. 911 (1990). Because of the independent legal effect of such a change of policy, it is an extra-litigation event, *i.e.*, happenstance as in *Munsingwear*, as distinguished from a litigation-based decision to forego an appeal or settle on appeal.

gested, if not actually held, that *Munsingwear* turned on the fact that the case was rendered moot by happenstance. See *Karcher v. May*, 484 U.S. 72, 82-83 (1987) (distinguishing *Munsingwear* happenstance from actions within the control of the party). While respondents (RBr 17) and the Government (USBr 11-12) dismiss *Karcher* as a case not involving mootness, the *Karcher* Court plainly linked *Munsingwear* to cases in which the controversy becomes moot due to extra-litigation circumstances and distanced *Munsingwear* from cases in which the controversy ends when the losing party declines to pursue its appeal.<sup>9</sup>

The deep division among the courts on whether to vacate on settlement, recognized by the Government,<sup>10</sup> undermines the view that there is a clear-cut, established practice on this question. And recently, this Court itself has indicated that vacatur is not always required, or at least that the question is open. See *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 124 L. Ed. 2d 1, 15 (1993) ("If, before the Court had decided the case, either party had advised it of a material change in circumstances that entirely terminated their controversy, it would have been proper *either* to dismiss the appeal *or* to vacate the entire judgment of the District Court.") (emphasis added).

<sup>9</sup>See *Karcher*, 484 U.S. at 83. A number of courts have agreed with petitioner's interpretation of *Karcher*. See *Clarendon Ltd v. Nu-West Indus., Inc.*, 936 F.2d 127, 130 (3rd Cir. 1991); *National Union Fire Ins.*, 891 F.2d at 766; *Constangy, Brooks & Smith v. NLRB*, 851 F.2d 839, 842 (6th Cir. 1988); *United States v. Garde*, 848 F.2d 1307, 1311 (D.C. Cir. 1988).

<sup>10</sup>USBr 10 n.7. See also *Clarke v. United States*, 915 F.2d 699, 709-18 (D.C. Cir. 1990) (Edwards, J., dissenting, joined by Mikva, Ginsburg, Robinson, JJ.). Contrary to respondents' argument (RBr 14-15), the summary order in *Davis v. City and County of San Francisco*, 984 F.2d 345 (9th Cir. 1993), is not a retreat from the Ninth Circuit's approach to vacatur on settlement. It describes neither Ninth Circuit precedent nor the factors leading to the vacatur.



Respondents' and the Government's insistence that this Court's summary decisions mandate vacatur on settlement is misplaced.<sup>11</sup> Summary decisions in general have less precedential value than opinions on the merits of the question.<sup>12</sup> Moreover, these summary decisions are particularly weak as precedent because they were rendered in the absence of adversarial briefs or even opinions addressing the conflicting analyses of courts and commentators.<sup>13</sup> Furthermore, the precedents on their terms are not very strong: there are older decisions ordering only dismissal, not vacatur, after settlement;<sup>14</sup> most of the cases involve a *government* as a party rather than only private parties;<sup>15</sup> and not all of the cases cited are settlement situations.<sup>16</sup>

<sup>11</sup> Indeed, *Stewart v. Southern Ry.*, 315 U.S. 784 (1942), cited by both respondents and the Government, in which this Court vacated its *own* judgment when the parties settled *after* the Court's decision (a procedure which should not be a routine practice) demonstrates the pitfalls of wholesale adherence to summary decisions.

<sup>12</sup> See *Edelman v. Jordan*, 415 U.S. 651, 671 (1974); Robert L. Stern et al., *Supreme Court Practice* § 4.29 (6th ed. 1986).

<sup>13</sup> See *Cardinal*, 124 L. Ed. 2d at 19 (Scalia, J., separate opinion).

<sup>14</sup> *Buck's Stove & Range Co. v. American Fed'n of Labor*, 219 U.S. 581 (1911); *Mills v. Green*, 159 U.S. 651 (1895); *Dakota County v. Glidden*, 113 U.S. 222 (1885).

<sup>15</sup> See USBr 19 (distinguishing between circumstance where the Government is a party and where only private parties are involved). See also note 8, *supra*.

<sup>16</sup> Of those that involve settlement, many involve multi-party suits where some of the parties settle but others do not, and vacatur could provide consistency in the judgment. *Chicago & North Western Ry. v. Atchison, Topeka, & Santa Fe Ry.*, 387 U.S. 326, 340 (1967); *Pierce v. Underwood*, 487 U.S. 552, 556 (1988). Moreover, in at least one of respondents' cited cases, *Continental Casualty Co. v. Fibreboard Corp.*, 113 S. Ct. 399 (1992), there was no settlement by the parties to the case before this Court. The set-

[footnote continued]

This hodgepodge of precedent cannot be read as always requiring vacatur regardless of the reason for mootness or any other circumstances. The Government itself correctly repudiates such a monolithic view, recognizing many situations where vacatur is not proper. It urges different answers according to the reason for mootness,<sup>17</sup> according to whether the parties ask for vacatur<sup>18</sup> (even though the case would be equally moot regardless of such a request), perhaps according to whether the appeal is discretionary or as of right,<sup>19</sup> whether the case involves an administrative agency or court adjudication,<sup>20</sup> whether (in some undefined way) "the judicial system itself has a distinct and legitimate interest in preserving the judgment below,"<sup>21</sup> and whether "the particularly 'strong public interest in the finality of judgments in patent litigation' " is implicated.<sup>22</sup> The Government also repeatedly emphasizes that special considerations may justify a rule of vacatur in government cases, just as, under *United States v. Mendoza*, 464 U.S. 154 (1984), special considerations justify an exception to the usual rules of nonmutual collateral estoppel in government cases.<sup>23</sup>

tlement was in a *related* case involving only one of the parties in this Court. This Court merely vacated and remanded to the Ninth Circuit to *consider* whether the case was moot.

<sup>17</sup> The Government says that mootness caused by action of the prevailing party should result in vacatur, but mootness caused by action of the losing party should not (USBr 13 n.12).

<sup>18</sup> USBr 10 n.10.

<sup>19</sup> *Id.* at 18 n.19.

<sup>20</sup> *Id.* at 26 n.26.

<sup>21</sup> *Id.* at 27 n.27.

<sup>22</sup> *Id.* at 25 n.24 (quoting *Cardinal*, 124 L. Ed. 2d at 17).

<sup>23</sup> USBr 17, 18 n.18, 19, 24. As noted above, almost every decision of this Court cited by respondents and the Government as

[footnote continued]

Thus, a rule of vacatur upon settlement cannot be drawn from *Munsingwear*'s rule of vacatur upon happenstance-caused mootness or this Court's summary orders.<sup>24</sup> The question of whether and under what mode of analysis the courts of appeals should vacate district court judgments at the request of settling parties remains open for the Court's full consideration.

## II. ESTABLISHED COLLATERAL ESTOPPEL LAW ALREADY STRIKES THE BALANCE BETWEEN FINALITY AND FAIRNESS

The Government criticizes petitioner's reliance "on the public and private interests in the finality of judicial decisions, especially as embodied in the doctrine of nonmutual collateral estoppel" (USBr 19). But it is precisely those interests that are at stake in deciding the vacatur question. And the importance of these finality interests — to the judicial system and other potential litigants — has been repeatedly reaffirmed by this Court, particularly in adopting nonmutual defensive<sup>25</sup> and offensive<sup>26</sup> collateral estoppel.

Thus, in *Blonder-Tongue*, the Court stressed the public policy against wasting judicial resources and unreasonably burdening a second defendant in holding that a claim rejected in a full and fair trial should not be relitigated

providing the basis for applying the *Munsingwear* procedure to settlement on appeal has been a case involving either the federal or a state government.

<sup>24</sup> In any event, the Court is free to refine, modify, or abandon earlier common-law principles when there are good reasons for doing so. The Government itself openly argues for departure from some of this Court's precedents on vacatur (USBr 13 n.12).

<sup>25</sup> *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313 (1971).

<sup>26</sup> *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979).

against a different defendant. 402 U.S. at 329. In approving nonmutual defensive collateral estoppel, the Court found that evaluating the first trial as "full and fair" was a sufficient safeguard.<sup>27</sup>

Similarly, in *Parklane*, the Court considered and rejected the arguments that offensive use of collateral estoppel (1) does not promote judicial economy, (2) provides incentive for prospective plaintiffs to take a "wait and see" attitude, (3) will likely increase rather than decrease the total amount of litigation, and (4) may be unfair to defendants, *id.* at 329-31, all echoed here by respondents and the Government. The Court "concluded that the preferable approach for dealing with these problems in the federal courts is not to preclude the use of offensive collateral estoppel, but to grant trial courts broad discretion to determine when it should be applied."<sup>28</sup> Likewise, the Court should reject these arguments as a basis for routine vacatur that would eliminate even the possibility of collateral estoppel, and instead should adopt a rule favoring denial of vacatur, leaving the determination whether the judgment should have preclusive effect to the court later asked to give it such effect.

In seeking to counter the force of this reasoning, the Government and respondents argue that appellate review is needed before a district court judgment can be final and preclusive (USBr 19-21; RBr 25). But exactly the *opposite* conclusion is reached in the federal common law of preclusion. For at least fifty years, the courts clearly and unequivocally have treated a district court judgment as entitled to preclusive effect as soon as it is

<sup>27</sup> *Id.*; *Parklane*, 439 U.S. at 328.

<sup>28</sup> *Id.* at 331. As Amicus, the Government supported affirmance of the appellate court's application of collateral estoppel.

rendered, *even if it is on appeal*. See, e.g., *Huron Holding Co. v. Lincoln Mine Operating Corp.*, 312 U.S. 183 (1941); 1B James W. Moore et al., *Moore's Federal Practice*, ¶¶ 0.416[1], 0.416[3] at 311, 318 (2d ed. 1993); Restatement (Second) of Judgments § 13 & cmt f (1982). That it is fundamentally fair to accord district court judgments immediate preclusive effect, given the interests of the judicial system and other litigants, reflects our legal system's commitment to treating the trial, not the appeal, as "the main event." *Wainwright v. Sykes*, 433 U.S. 72, 90 (1977).<sup>29</sup>

The law of preclusion does, of course, provide safeguards against unfairness in giving a decision preclusive effect. It does so, however, not by any blanket denial of preclusion absent appellate review, but by directing the court in which estoppel is invoked to make the fairness determination. Restatement (Second) of Judgments § 28 (1982). That is the flexible procedure that a rule against vacatur allows but that a rule of automatic vacatur forecloses.

In this case, for example, there is no reason to question the fairness of applying the Florida judgment collaterally. There is no evidence that Windmere settled because it lacked confidence in the district court's judgments; it filed briefs in the Federal Circuit which indicate just the

<sup>29</sup> The Government's recitation of the "core purpose of finality" attempts to focus the inquiry solely on the parties' interests. However, as developed in *Blonder-Tongue* and *Parklane*, non-mutual collateral estoppel was adopted to serve important interests which transcend the interests of the parties and the resolution of their particular dispute — including judicial economy and the interests of other parties affected by the finality of the judgment. The Government's argument ignores these important underpinnings of nonmutual collateral estoppel.

opposite.<sup>30</sup> The district court in Florida found no flaws in the jury's verdict, and the district court in Illinois found the Florida trial to be fundamentally fair. In addition, Philips did not even condition its acceptance of the settlement terms on vacatur of the district court judgment, further undercutting any implication that the district court judgment was viewed as reversibly flawed. More generally, if the particular circumstances of a settlement were to suggest the unreliability of a district court judgment, those circumstances could be taken into account by a court deciding whether to impose collateral estoppel or to grant a motion to vacate.

The Government and respondents attempt to escape the clear balance between finality and fairness struck by preclusion law, but their attempt confuses a judgment *unreviewed* by virtue of a voluntary decision of the parties to settle with a judgment that is *unreviewable* by virtue of extra-litigation events or circumstances. Under the law of collateral estoppel, a district court judgment is not entitled to preclusive effect if the losing party has no legal right to take an appeal. See Restatement (Second) of Judgments § 28(1) (1982) (no issue preclusion if "party against whom preclusion is asserted could not, *as a matter of law*, have obtained review of the judgment in

<sup>30</sup> Both the Government and respondents challenge the reliability of a district court judgment whenever the parties reach a compromise settlement on appeal (USBr 22; RBr 25). This argument is unsupported speculation, obviously depends on the particular terms of the settlement agreement on a case-by-case basis, and is contrary to the facts of this case. Here, Philips agreed to a \$57 million payment to Windmere which far exceeded the district court's award of \$30 million in actual damages. It was strictly a compromise of the amount of *increased* damages awarded by the court. Thus, the terms of the agreement neither expressly nor implicitly reveal any mutual distrust of the reliability of the district court judgment.



the initial action") (emphasis added). But that principle has no more application to a settlement that renders a decision unreviewed than to a case in which the time for appeal has simply been allowed to expire.

The Government and respondents suggest the contrary, attempting to support their expressed suspicion of unreviewed judgments by reference to *Standefer v. United States*, 447 U.S. 10 (1980) (RBr 25; USBr 21). In *Standefer*, however, the Court denied preclusive effect to a criminal acquittal because the losing party, the Government, was barred *by law* from taking an appeal and therefore had no means of correcting (or deterring) even the most egregious errors, no matter how much it wanted appellate review. *Id.* at 23.

The judgment in *Standefer* was truly "unreviewable"; a judgment that the losing party could have appealed, but simply chose not to, is not. This distinction is in harmony with the distinction between the *Munsingwear* mootness by "happenstance" and mootness by freely chosen settlement. A refusal to extend *Munsingwear* to the situation of settlement on appeal is therefore strongly supported by the policy balance long struck in the law of collateral estoppel.

### III. CONSIDERATIONS OF JUDICIAL EFFICIENCY, THE PUBLIC INTEREST, AND THIRD PARTY INTERESTS SUPPORT GENERALLY DENYING VACATUR

In arguing against petitioner's position, the Government points out that "as this Court's decision in *United States v. Mendoza*, [464 U.S. 154, 163 (1984),] indicates, the interests favoring application of nonmutual collateral estoppel are not absolute and must give way to countervailing considerations in appropriate circumstances"

(USBr 20). However, the interests involved — judicial efficiency, other public interests, and the interests of third parties — all *support* a rule against vacatur.

**A. Judicial Efficiency.** Judicial efficiency favors denying vacatur at the appellate stage as a general proposition. In arguing that a rule of vacatur saves judicial resources by encouraging settlement on appeal (USBr 16), the Government ignores the greater significance of the cost of vacatur — the fostering of *other* litigation by the elimination of collateral estoppel. Both sides of this ledger must be considered. In particular, the increase in litigation caused by foreclosing collateral estoppel has a direct adverse effect on the congested dockets of the federal district courts. Moreover, the supposed savings to the appellate court (or this Court) may be illusory: review of the legal issues may simply be deferred to the next case. And if vacatur is routinely available even after full briefing and scheduling of argument, or even after hearing of argument, extensive appellate resources may already have been spent and other litigants pushed back in line.

The Government's save-now/pay-later approach is based entirely on the assumption, without any evidentiary support and in contradiction to the very facts of this case, that "in most cases the possibility of such future preclusive use is entirely speculative" (USBr 23). This is contrary to common sense. The Government itself identifies the future preclusive use or precedential value of a district court decision as *the* reason a litigant may be deterred from settling absent vacatur (USBr 16-17). Thus, the touted savings from a pro-vacatur rule occur *precisely* in those cases where litigation is, far from being speculative, most definitely contemplated. Accordingly, it is in cases where vacatur is sought that further lawsuits — perhaps multiple suits — are *most* likely. The Government's assertion that current savings outweigh future costs, in

short, is not only unsupported but seems exactly backwards. A rule against vacatur, by preserving collateral estoppel, seems the litigation-minimizing rule.

Denial of vacatur also produces savings in litigation costs by encouraging settlement prior to trial. Although the Government and respondents point to the high cost of litigating unsuccessfully as itself an incentive to settle before trial (USBr 17 n.17; RBr 36-37), the Government acknowledges that the adverse judgment and its potential preclusive or precedential effect are often the most important concern of the unsuccessful litigant (USBr 16-17). Since vacatur on appeal decreases the risk to such a litigant by alleviating its most important concern, the availability of routine vacatur inevitably encourages going forward with the trial rather than settling.

Recently, the U.S. District Court for the District of Colorado considered these various arguments regarding judicial efficiency and wrote that:

Parties have ample opportunity to settle early on, before more and more judicial and party resources are expended on their behalf. For example, some magistrate judges in this district typically hold an average of three settlement conferences per litigant, and may hold as many as eight to ten per litigant in some complex and protracted cases. Yet vacatur provides no incentive for early settlement and in fact encourages litigants to roll the dice on a district court ruling so long as they can settle to pay their way out of both the ruling and the adverse precedent. The Second Circuit's view that vacatur is conducive to settlement is not only empirically unsupported but runs contrary to the experience of this and other district courts: specifically, that vacatur saves far less in circuit court resources than, by its perverse incentive for litigants to stall on settlement until after judgment, it costs the district courts and the parties. Vacatur is simply not efficient judicial resource management.

*Benavides v. Jackson Nat'l Life Ins. Co.*, No. 92-F-65, slip op. at 7-8 (D. Colo. May 6, 1993) (citation omitted) (copy appended hereto).

This assessment is in complete accord with the facts of this case. Dispensing with the Federal Circuit's oral argument and decision in this case is small gain by comparison to the increased litigation that will result from upsetting the collateral estoppel decision in Illinois.

**B. The Public Interest.** In *Blonder-Tongue*, the Court recognized the particularly strong public interest in the finality of judgments of patent invalidity. Recently, the Court reaffirmed that interest in *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 124 L. Ed. 2d 1, 17 (1993). Although the facts and issues in *Cardinal* are different from those here, the decision in *Cardinal* follows *Blonder-Tongue* in underscoring the strong public interest in the free use of ideas unprotected by patents. The Court has recognized that public interest in other practices affecting free competition, including the right to use designs in the public domain. The public interest in finality thus is particularly important here.<sup>31</sup>

As a result of the district court judgment in Florida and the ruling in Illinois, Philips has no trade dress right in the functional design of its rotary shavers and, consist-

<sup>31</sup> Respondents argue that Philips' unfair competition claim "is so different from a patent claim that the concerns expressed in *Cardinal* are not relevant to this action" (RBr 24). To the contrary, this Court has recognized that "publicly known design and utilitarian ideas which were unprotected by patent occupied much the same position as the subject matter of an expired patent." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989). See also *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). The Illinois district court ruled that Philips' alleged trade dress had fairly been found to be functional and hence not protectable (Pet. A29), and its trade dress claim therefore stands on no different footing than an expired or invalid patent.



ent with the philosophy expressed in *Blonder-Tongue*, *Bonito Boats*, and *Cardinal*, all are free to use the design at issue. Under the settlement and vacatur, however, Izumi shavers can be sold by Windmere, but Philips seeks the right to enjoin Sears (and anyone else) from selling shavers of the same design, leading to potential suits in different districts. It was to avoid the burdens of multiple litigation with possible disparate results, and its adverse effect on competition, that the Court permitted nonmutual defensive collateral estoppel. A general rule of vacatur on demand as practiced by the Federal Circuit undermines the Court's deference to this important public interest as reflected in *Blonder-Tongue*, *Cardinal*, and *Bonito Boats*.

**C. The Effect on Third Parties.** The Government takes petitioner to task for urging consideration of the adverse effect of vacatur on non-litigants such as Izumi and Sears in preference to the interests of the parties themselves (USBr 20). But the interests of third parties should no more be ignored in vacatur cases than they are in estoppel law. Here, for example, they are especially weighty.

The terms of the settlement involve only actions to be taken by the parties to that agreement. Vacatur by the court is not a condition of the settlement, and thus each of Philips and Windmere received the consideration for which it bargained, irrespective of the Federal Circuit's decision on vacatur. Neither Izumi nor Sears was invited to be part of the agreement or negotiate with Philips and Windmere. Yet, the Federal Circuit entered a vacatur order that directly and immediately affects Sears, as a litigant in Illinois, and Izumi, as Sears' manufacturer and indemnitor — forcing them to bear the burden of litigation against Philips on issues Philips has already lost, after full and fair proceedings. It is not unfairly elevating the

interests of Izumi and Sears over those of Windmere and Philips to consider the effect of the vacatur on Izumi and Sears along with the effect of vacatur on judicial efficiency and the public interest.

If this Court adopts a rule generally denying vacatur when parties settle on appeal, then the Federal Circuit's grant of vacatur must, of course, be reversed.<sup>32</sup> But even under a more flexible balancing of finality considerations versus fairness, the Federal Circuit's granting of vacatur in this case would still be in error.<sup>33</sup>

There can hardly be a more inappropriate case for vacatur — huge judicial and private party resources already

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<sup>32</sup> Contrary to their arguments (RBr 27-30), respondents fail the three-part test in *Chevron Oil Co. v. Huson*, 404 U.S. 97 (1971). Instead of relying on the Federal Circuit's precedent of vacatur, respondents' settlement agreement specifically provided that the settlement would not be affected even if the district court's judgment was not vacated (J.A. 159a-60a), and they cannot plead ignorance of the criticism of the automatic vacatur rule in other circuits. In addition, it is undisputed that at least Windmere knew that Izumi opposed vacatur (J.A. 167a). More importantly, for all the reasons set forth above, the equities weigh in favor of retroactive application of this Court's decision to the Philips/Windmere motion. Finally, the vitality of *Chevron* is questionable. See *James B. Beam Distilling Co. v. Georgia*, 111 S. Ct. 2439 (1991).

<sup>33</sup> The Government proposes that the standard for entry of a consent decree be used to provide flexibility to the decision of courts of appeals as to whether to grant a motion to vacate on settlement (USBr 27-28). Petitioner is not aware of any circuit court of appeal adopting such a standard. Moreover, it is based on the primacy of the parties' settlement interests and is more adapted to district court evaluation in the pretrial context rather than post-trial relief from judgment. The finality interests identified by this Court in its decisions on collateral estoppel, discussed above, provide the most analogous and most informative factors for determination of the approach to vacatur since the central philosophical issue is whether to eliminate or leave open the possibility of subsequent preclusive effects.



spent, further existing litigation avoided but for vacatur, and the strong public interest in maintaining the result obtained.<sup>34</sup> For all these reasons, the Court should reverse the decision below.

#### IV. IZUMI IS A PROPER INTERVENOR AND PARTY TO THIS APPEAL

Respondents' attempt to minimize Izumi's stake in this controversy fails to show that Izumi's interest in opposing vacatur is not a significantly protectable interest.<sup>35</sup> Viewed objectively, the interests of others who have been permitted to intervene on appeal were no greater than Izumi's. See also *Commonwealth Land Title Ins. Co. v. Corman Constr., Inc.*, 61 U.S.L.W. 3818 (U.S. June 7, 1993) (motion to intervene to petition for certiorari granted for an insurer that financed the legal defense of a party and faces claims if an unfavorable court decision is not appealed).

<sup>34</sup> Contrary to respondents' portrayal of Philips as the innocent victim of unfair trials and Izumi as a bad faith intruder, the Illinois district court had specifically determined that Philips had a full and fair trial in Florida (Pet. A29-30). Izumi's interests as manufacturer of the products at issue and indemnitor of Windmere and Sears make it anything but an intruder. Finally, respondents improperly charge Izumi with holding back until Philips gave up its right of appeal. It is undisputed that Izumi told Windmere that it objected to vacatur even before the settlement agreement was reached, asked Windmere to convey this objection to Philips, and acted immediately to oppose the Philips/Windmere motion to vacate when it was filed (J.A. 167a-68a).

<sup>35</sup> After spending millions in defense of its right to market its rotary shavers in the United States, resulting in two jury verdicts in which Philips' alleged trade dress was found to be legally functional and unprotectable, Izumi now faces substantial additional legal expenses to defend Sears, another of its indemnitees, against the same trade dress claims, and faces further injury to its rotary shaver business if Philips prevails in the third trial.

Moreover, respondents demonstrate the timeliness of Izumi's motion by what they fail to assert. Respondents have not argued that Izumi's interests were inadequately represented during trial or during briefing of the appeal. Respondents do not contest that Windmere stopped representing Izumi's interest when it settled with Philips. Respondents have not disputed that Izumi moved to intervene as soon as the motion to vacate was filed. Thus, Izumi's motion to intervene was timely.<sup>36</sup>

<sup>36</sup> Although Izumi did not separately include standing to intervene as a Question Presented in its petition for certiorari, the issue of standing was fully briefed in the petitions for certiorari, (Pet. Cert. 14-16; Opp. 4-5; Reply 2-3) and respondents explicitly raised the issue in their Counterstatement of Questions Presented (Opp. i). Thus, neither respondents nor this Court were prejudiced by any failure to consider this issue. Izumi's standing to oppose vacatur can be viewed as fairly included within the question of whether the court of appeals erred in vacating the district court judgment. Sup. Ct. R. 14.1(a). In any event, the denial of intervention when Izumi's rights are clearly at stake was a plain error, evident from the record and within this Court's jurisdiction to decide. Sup. Ct. R. 24.1(a); See *Peters v. Kiff*, 407 U.S. 493, 495 (1972). Sound principles of judicial economy favor deciding this case. *New York v. Uplinger*, 467 U.S. 246, 250-51 (1984) (Stevens, J., concurring).

## V. CONCLUSION

For these reasons and the reasons set forth in petitioner's brief on the merits, the Court should reject the Federal Circuit's practice, reverse the decision of that court, and reinstate the Florida district court judgment.

Respectfully submitted,

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June 21, 1993

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**APPENDIX**

[Filed May 6, 1993]

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLORADO**

Civil Action No. 92-F-65

**CHRISTINE BENAVIDES,**

Plaintiff,

v.

**JACKSON NATIONAL LIFE INSURANCE COMPANY,**  
Defendant.

**ORDER REGARDING ORDER AND  
MANDATE DIRECTING VACATUR**

Sherman G. Finesilver, Chief Judge

This is a case involving a contested life insurance policy. Jurisdiction is based upon 28 U.S.C.A. §1441(a). We entered a final judgment in this matter on November 17, 1992 and the judgment was appealed. This matter comes before the District Court following the order of the Court of Appeals for the Tenth Circuit directing this Court to vacate its prior judgment and order and to dismiss the complaint. For the reasons explained below, we must respectfully decline to vacate our prior judgment pending a reasoned and more detailed order from the Court of Appeals.



## I.

On March 29, 1989, Epitacia Benavides and his wife, Plaintiff Christine Benavides, entered a State Farm Insurance Office to inquire about buying a life insurance policy. After a meeting with two agents of Defendant Jackson National Life Insurance Company, the facts of which were disputed in the parties' briefs on Jackson's motion for summary judgment, Mr. Benavides decided to purchase the policy. On the questionnaire he filled out to accompany his policy application, Mr. Benavides denied having any past or current medical problems.

The agents issued Mr. Benavides an "Interim Insurance Receipt" ("Interim Receipt" or "Receipt"), dated, like the Application, March 29, 1989. The Interim Receipt provided that Mr. Benavides would be insured by Defendant until Defendant either rejected or approved his application. If Defendant approved the application, a more permanent policy would be issued. The Receipt stated that it would terminate automatically when Jackson approved the policy. The Receipt also stated that it was "not a binder." As consideration for the Interim Receipt, Mr. Benavides paid his first premium in the amount of \$40.29. On April 17, 1989, Defendant issued Mr. Benavides a life insurance policy ("the Final Policy").

Mr. Benavides paid his insurance premiums until April 3, 1991, when he died of atherosclerotic cardiovascular disease. Approximately two weeks later, Mrs. Benavides presented her claim as the primary beneficiary of the policy. Upon researching Mr. Benavides' medical history, Defendant concluded that he had materially misrepresented his health on his application and accordingly denied payment of benefits. Plaintiff filed suit in state court on December 13, 1991, alleging breach of con-

tract. Defendant raised as a defense Mr. Benavides' alleged material misrepresentation regarding his health. Defendant filed a motion for summary judgment, and Plaintiff was later granted leave to move for summary judgment on her own behalf.

The issue before this Court in its prior order was whether the Policy was incontestable as of the date of Mr. Benavides' death. In an order and judgment unfavorable to Jackson, we concluded the Policy's incontestability clause was ambiguous and that a finding of incontestability would thwart the purpose and policy behind the statute providing for incontestability clauses. Jackson filed notices of appeal with the Tenth Circuit Court of Appeals on December 16, 1992 and January 29, 1993, but before appeal could be perfected on the merits; on April 2, 1993, the parties filed a joint motion to vacate and dismiss. On April 9, 1993, the Court of Appeals, stating that the appeals had been settled and were dismissed as moot, further directed this Court to vacate its prior judgment in the case. The order, in its entirety, states:

Pursuant to Rule 42(b), Fed.R.App.P., and the Joint Motion To Vacate and Dismiss submitted by the parties, these appeals have been settled and are hereby dismissed as moot. The case is remanded to the district court with instructions to vacate the judgment entered on November 23, 1992, and the subsequent judgment entered on December 23, 1992. The district court is further directed to dismiss the complaint. *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950); *Beattie v. United States*, 949 F.2d 1092, 1095 (10th Cir. 1991); *Tosco Corp. v. Hodel*, 826 F.2d 948 (10th Cir. 1987).

Each party shall bear its own costs and the mandate shall issue forthwith.

## II. Vacatur

The Court of Appeals cited as authority for its order of vacatur three cases, including *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950), *Beattie v. United States*, 949 F.2d 1092, 1095 (10th Cir. 1991), and *Tosco Corp. v. Hodel*, 826 F.2d 948 (10th Cir. 1987). We do not believe these cases are responsive to the issue in the instant matter.

### A. The Rule and Rationale of the Supreme Court

In *Munsingwear*, the United States' allegations of price-fixing by the defendant became moot when, while the case was pending appeal, the commodity involved was deregulated. The Court established the rule that judgments rendered below should be vacated when cases, by chance, become moot pending appeal. 340 U.S. at 39. The rule "clears the path for future relitigation of the issues between the parties and eliminates a judgment, review of which was prevented through happenstance." *Id.* at 40 (emphasis added). *Munsingwear* thus preserves the rights of the parties and ensures that no party is subject to res judicata on a claim or issue which it cannot appeal. On the other hand, "*Munsingwear* teaches that when a case is mooted through no fault of the parties, the maintenance of the judgment may be prejudicial to a party who has lost the opportunity to challenge such a judgment on appeal." See Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 CORNELL L. REV. 589, 592-93 (March 1991) (hereafter *Rewriting History*).

In *Karcher v. May*, 484 U.S. 72, 81-83 (1987), the Court further clarified the rule in *Munsingwear*. The presiding legislative officers of the New Jersey legislature had

twice lost in the lower courts when those courts determined that New Jersey's law mandating a moment of silence in schools was unconstitutional. Before appeal was filed in the Supreme Court, the appellants lost their posts as presiding officers and their successors withdrew the legislature's appeal. The Court declined to order vacatur of the lower courts' judgments because the case was moot for lack of jurisdiction. Further articulating the *Munsingwear* rationale, the Court stated "the controversy did not become moot due to circumstances unattributable to any of the parties." *Id.* at 83. Rather, the losing party, represented by new officers, voluntarily declined to pursue any appeal.

The rule, then, for vacating judgments is that (1) the case must become moot and (2) that it must become moot through no controllable, voluntary action attributable to the parties.

### B. Vacatur in the Tenth Circuit

One of the cases cited by the Tenth Circuit in its brief instruction to vacate is entirely distinguishable on its facts from the instant case and the other, like the order of vacatur in this case, does not address the policies against vacatur and the limitations imposed by the Supreme Court.

For example, in *Beattie*, a firefighter with the Boeing Military Airplane Company brought suit for declaratory judgment and injunctive relief against the United States, alleging that the Air Force's denial of his access to certain sensitive areas violated his constitutional rights. Before the case even came before the district court on summary judgment, the plaintiff voluntarily quit his job. The district court nevertheless found the case was not moot and



ruled on the motion for summary judgment. The Tenth Circuit reversed, concluding the case was moot at the time the district court had entered its judgment and therefore the district court lacked jurisdiction to enter judgment in a moot case. 949 F.2d at 1095. Unlike the case before us, *Beattie* was moot before the district court even ruled on it. The Court of Appeals properly concluded no judgment could enter on an already moot case.

In *Tosco*, the Tenth Circuit addressed only briefly the issue of vacatur. It did not illustrate why vacatur was appropriate in that case but rather cited two distinguishable Supreme Court cases without explanation of their applicability. 826 F.2d at 948 (citing *Iron Arrow Honor Society v. Heckler*, 464 U.S. 67 (1983) (holding that university's new policy against discriminatory acts of all-male honorary society mooted the society's appeal seeking to prevent Secretary of Health, Education and Welfare from interpreting the law to require the university to ban society's activities from campus); *Great Western Sugar Co. v. Nelson*, 422 U.S. 92 (1979) (holding that completed arbitration pending appeal mooted district court's order directing arbitration)).

Both *Iron Arrow* and *Great Western* found vacatur proper only where changed circumstances prohibited the appeals courts from granting relief from the judgment below. In *Iron Arrow*, the university's policy had changed such that the Secretary's interpretation became irrelevant; "whatever the correctness of the Secretary's interpretation of the regulation in question, the University has stated unequivocally that it will not allow Iron Arrow to conduct its initiation activities on University property." Therefore any complementary instruction by the Secretary was moot. 464 U.S. at 70-71. In *Great Western*, the decision ordering arbitration was moot and unchallenge-

able once arbitration had already begun and run its course. However, settlement in no way moots a case, see, e.g., *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 281 (2d Cir. 1985), as will be explained below.

### C. Policy in Support of Limited Application of the Rule

That *Munsingwear* is inapplicable to situations involving settlements of cases pending appeal is amply illustrated by both the Supreme Court's recent grant of certiorari on the issue<sup>1</sup> and the division among the circuits on vacatur of district court judgments. The Third, Seventh, and District of Columbia Circuits (the plurality of circuits) have held that requests for vacatur based on a post-judgment settlement should be refused. *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3rd Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991); *In the Matter of Memorial Hosp., Inc.*, 862 F.2d 1299 (7th Cir. 1988). The Ninth Circuit has adopted a balancing approach that essentially follows the plurality of circuits in distinguishing among cases made moot by circumstances and cases made moot by an act of the appellant. *Scott v. Iron Workers Local 118*, 928 F.2d 863 (9th Cir. 1991); *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989); *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982). The Second and Federal Circuits, stressing the importance of settlement and conservation of judicial and party resources, have held that district

<sup>1</sup>See *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728 (Fed. Cir. 1992), reh'g denied (1992), cert. granted by *Kaisha v. Philips Corp.*, 113 S.Ct. 1249, 61 U.S.L.W. 3580 (Feb. 22, 1993) (No. 92-1123).



court judgments are subject to vacation when litigants enter into voluntary post-judgment settlements. *See, e.g., U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728 (Fed. Cir. 1992), *reh'g denied* (1992), *cert. granted by Kaisha v. Philips Corp.*, 113 S.Ct. 1249, 61 U.S.L.W. 3580 (Feb. 22, 1993) (No. 92-1123) (granting certiorari on issue of vacatur's propriety following settlement); *Long Island Lighting Co. v. Cuomo*, 888 F.2d 230 (2d Cir. 1989); *Smith Int'l, Inc. v. Hughes Tool Co.*, 839 F.2d 663 (Fed. Cir. 1988); *Nestle Co.*, 756 F.2d 280.

As we explained in *Russell v. Turnbaugh*, 774 F. Supp. 597 (D. Colo. 1991), we find the reasoning of the plurality of circuits more persuasive, particularly the exposition by Judge Easterbrook in *Memorial Hospital*, 862 F.2d at 1300-03. On the other hand, we believe the Court in *Nestle* read *Munsingwear* far too broadly, perhaps incorrectly, when it stated "district court judgments that become moot pending appeal must be vacated." 756 F.2d at 281. As we have previously noted, *Munsingwear* requires for vacatur not only that the judgment become moot, but that such mootness arise through no action of the parties. Furthermore, the Court in *Nestle* simply made a policy choice, which we are free to disregard and the Tenth Circuit free to reinstate, favoring settlements over the finality of judgments. *Id.* at 283. Although this Court has traditionally encouraged settlement during the pretrial phase of litigation, we believe the costs of vacatur following post-judgment settlements on appeal are too high.

Our opinion in *Russell* cited numerous authorities disapproving the lack of res judicata effect given vacated judgments, the prospect of continued litigation of settled cases, and the disincentive to early settlement at the trial level, where most settlement — and therefore the

most conservation of resources — is achieved. *Id.* at 600; *see also Fisch, Rewriting History, supra*, at 592 (concluding that post-judgment vacatur distorts the settlement process, delays settlement to waste judicial resources, and engenders disrespect for the courts by "perverting" the judicial decision into a negotiable commodity). We noted that, contrary to the claims of the Court of Appeals in *Nestle*, vacatur may not be the policy most conducive to conservation of judicial resources. For example, we have relitigated issues already decided but later vacated after a dilatory settlement. In *Tosco Corp. v. Hodel*, 611 F. Supp. 1130 (D. Colo. 1985), after over two decades of litigation, several appeals to the Supreme Court, and the commencement of congressional oversight, the trial court poured substantial resources into crafting an exhaustive, widely-circulated, 86-page opinion that could have effectively served as a primer on the Mineral Leasing Act of 1920 and painstakingly detailed the economic, historical, and legal aspects of oil shale and other mineral leasing rights. The litigants settled their dispute pending appeal. The Tenth Circuit directed that the order and judgment be vacated. *Tosco*, 826 F.2d 948. As a result of the vacatur, many of the identical mining issues had to be relitigated in *Marathon Oil Co. v. Lujan*, 751 F. Supp. 1454 (D. Colo. 1991), *aff'd in part and rev'd in part*, 937 F.2d 498 (10th Cir. 1991).

Parties have ample opportunity to settle early on, before more and more judicial and party resources are expended on their behalf. For example, some magistrate judges in this district typically hold an average of three settlement conferences per litigant, and may hold as many as eight to ten per litigant in some complex and protracted cases. Yet vacatur provides no incentive for early settlement and in fact encourages litigants to roll

the dice on a district court ruling so long as they can settle to pay their way out of both the ruling and the adverse precedent. *See id.* at 595-56. The Second Circuit's view that vacatur is conducive to settlement is not only empirically unsupported but runs contrary to the experience of this and other district courts: specifically, that vacatur saves far less in circuit court resources than, by its perverse incentive for litigants to stall on settlement until after judgments, in costs the district courts and the parties. Vacatur is simply not efficient judicial resource management.

We have agreed with the Seventh Circuit's view in *Memorial Hospital*, 862 F.2d at 1300, that a judicial decision is a public act, created with societal resources for the purpose of resolving current disputes and providing guidance in future matters. *Russell*, 774 F. Supp. at 595-96. Once a case is decided in a district court and the machinery of the public's justice system begins to operate, the decision becomes a part of the court's and the country's jurisprudence. Particularly in an era in which opinions can be immediately transmitted and published across the nation via computer databases, decisions no longer belong merely to the litigants. Their precedential value can be diminished by an appellate court's vacation, but they can never be erased and their reasoning may continue to be followed. In *Russell*, we disapproved of the use of judicial opinions as a bargaining commodity and concluded that judicial decisions are not for sale. *Id.* We now elaborate on our views in *Russell* in order fully to illuminate the difficulties posed by vacating judgments based upon no more cause than that the parties have reached a settlement.

#### D. Further Policy Implications of Judgment Vacation as a Condition of Settlement

In the normal and traditional operation of the American justice system, each party walks to the courthouse with a compilation of opinions in its favor under one arm and a collection of opposing views under the other. It is then not uncommon for the parties, under the court's supervision, to place the weight of case law for and against their positions on the appropriate side of the court's judicial scales. In many instances, particularly in litigation involving institutional litigators understandably enamored with the majority approach, one or both parties may state that "the weight of authority" supports their view. A string of citations follows. Courts may then, for understandable reasons, accept the majority view as the view tending toward more stability and predictability in the law and toward fewer accusations of renegade activism.

Given this background of deference to majority common law, vacatur becomes an important litigation tool, particularly for institutional litigators who must return to court many times with the same arguments. When a court rejects the arguments of institutional litigators such as Jackson, an insurance company, the institutions are dealt a crippling blow not only in the case at bar but in future litigation. Vacatur allows disappointed litigators effectively to rewrite history. Vacatur allows them to control the direction and content of the jurisprudence — to weed out the negative precedent and preserve the positive — and create an artificially weighty and one-sided estimate of what comprises "the case law." This phenomenon has been amply catalogued in the mainstream legal literature. *See, e.g.,* Roger Parloff, *Rigging the*

*Common Law*, THE AMERICAN LAWYER (March 1992); Gail Diane Cox, *Innovation — Or Just Court Triage?* NATIONAL LAW JOURNAL, Oct. 5, 1992, at 1.

A party that can erase negative precedent through vacatur views the lower court's judgment as a bargaining chip: in exchange for the victor's agreement to relinquish the precedential value of the judgment, the loser will offer some form of inevitably pecuniary sweetener. For example, the loser offers not to create the expense and risk of reversal inherent in appeal, or the loser may offer more in a settlement with the victor than the victor initially received, or even demanded in the complaint. At the same time, the victor, notably, is typically not a repeat litigator and has little interest in preserving the precedential value of the judgment below. The victor has little reason to resist vacatur and take its chances on appeal.

The case law becomes what the party with the greatest resources wishes it to be. Economic prowess purchases more persuasive power than the marketplace of ideas and sound reasoning combined. Vacatur allows wealthy litigants to become, in effect, editors of their own treatises on the subjects which concern them. We have no kind words for such a practice. We can imagine few practices condoned by the judicial system that would have a less salutary effect on both the reality and the perception of its integrity.

## III.

Accordingly, we must respectfully decline to vacate our prior judgment pending a reasoned and more detailed order from the Court of Appeals.

Dated this 6th day of May 1993, at Denver, Colorado.

BY THE COURT:

/s/ Sherman G. Finesilver  
Sherman G. Finesilver, Chief Judge  
United States District Court

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No. 92-1123

MAY 25 1993

OFFICE OF THE CLERK

**In the Supreme Court of the United States**

OCTOBER TERM, 1992

**IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA, PETITIONER**

*v.*

**U.S. PHILIPS CORPORATION, ET AL.**

**ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

**BRIEF FOR THE UNITED STATES  
AS AMICUS CURIAE SUPPORTING RESPONDENTS**

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### **QUESTION PRESENTED**

Whether the court of appeals erred in granting respondents' joint motion to vacate the judgment of the district court after the case, while pending on appeal, became moot as a result of the parties' settlement.

## TABLE OF CONTENTS

	Page
Interest of the United States .....	1
Statement .....	2
Summary of argument .....	5
Argument:	
I. This Court's precedents mandate a general rule of vacatur when a case that is pending on appeal becomes moot as a result of a settlement agreement that contemplates vacatur .....	9
II. Considerations of fairness and public policy also support a general rule of vacatur in cases that become moot as a result of settlement while pending on appeal .....	14
Conclusion .....	29

## TABLE OF AUTHORITIES

### Cases:

<i>Alliance To End Repression v. Chicago</i> , 820 F.2d 873 (7th Cir. 1987) .....	27
<i>A.L. Mechling Barge Lines, Inc. v. United States</i> , 368 U.S. 324 (1961) .....	12, 26
<i>Bates v. Union Oil Co.</i> , 944 F.2d 647 (9th Cir. 1991), cert. denied, 112 S. Ct. 1761 (1992) .....	16
<i>Baxter Healthcare Corp. v. Healthdyne, Inc.</i> , 956 F.2d 226 (11th Cir. 1992) .....	8
<i>Bento v. I.T.O. Corp.</i> , 599 F. Supp. 731 (D.R.I. 1984) ...	26
<i>Bethune Plaza, Inc. v. Lumpkin</i> , 863 F.2d 525 (7th Cir. 1988) .....	27
<i>Black v. Amen</i> , 355 U.S. 600 (1958) .....	9
<i>Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation</i> , 402 U.S. 313 (1971) .....	19
<i>Board of Regents v. New Left Education Project</i> , 414 U.S. 807 (1973) .....	13



## IV

Cases—Continued:	Page
<i>Bowen v. Kizer</i> , 485 U.S. 386 (1988) .....	13
<i>Buck's Stove &amp; Range Co. v. AFL</i> , 219 U.S. 581 (1911) .....	8, 10
<i>Cardinal Chemical Co. v. Morton Int'l, Inc.</i> , No. 92-114 (May 17, 1993) .....	25
<i>Chemetron Corp. v. Business Funds, Inc.</i> , 682 F.2d 1149 (5th Cir. 1982), vacated in part, 460 U.S. 1007, cert. denied, 460 U.S. 1013 (1983) .....	16
<i>Church of Scientology v. United States</i> , 113 S. Ct. 447 (1993) .....	7
<i>City Gas Co. v. Consolidated Gas Co.</i> , 111 S. Ct. 1300 (1991) .....	4, 9
<i>Clarendon Ltd. v. Nu-West Industries, Inc.</i> , 936 F.2d 127 (3d Cir. 1991) .....	8, 25
<i>Clarke v. United States</i> , 915 F.2d 699 (D.C. Cir. 1990) .....	18
<i>Cleveland Board of Education, v. Loudermill</i> , 470 U.S. 532 (1985) .....	24
<i>Commercial Cable Co. v. Burleson</i> , 250 U.S. 360 (1919) .....	13
<i>Continental Casualty Co. v. Fibreboard Corp.</i> , 113 S. Ct. 399 (1992) .....	9
<i>Coopers &amp; Lybrand v. Livesay</i> , 437 U.S. 463 (1978) .....	14
<i>County of Los Angeles v. Davis</i> , 440 U.S. 625 (1979) .....	16, 17
<i>Dakota County v. Glidden</i> , 113 U.S. 222 (1885) .....	10
<i>Deakins v. Monaghan</i> , 484 U.S. 193 (1988) .....	7, 12, 15
<i>DHL Corp. v. Civil Aeronautics Bd.</i> , 659 F.2d 941 (9th Cir. 1981) .....	16
<i>Dodrill v. Ludt</i> , 764 F.2d 442 (6th Cir. 1985) .....	16
<i>Duke Power Co. v. Greenwood County</i> , 299 U.S. 259 (1936) .....	9

## V

Cases—Continued:	Page
<i>FDIC v. Cherry, Bekaert &amp; Holland</i> , 129 F.R.D. 188 (M.D. Fla. 1989) .....	26
<i>Federal Data Corp. v. SMS Data Prods. Group, Inc.</i> , 819 F.2d 277 (Fed. Cir. 1987) .....	8, 15, 20
<i>Firefighters Local No. 93 v. City of Cleveland</i> , 478 U.S. 501 (1986) .....	28
<i>Fox v. Acadia State Bank</i> , 937 F.2d 1566 (11th Cir. 1991) .....	25-26
<i>Frank v. Minnesota Newspaper Ass'n</i> , 490 U.S. 225 (1989) .....	12
<i>Fricker v. Foster</i> , 596 F. Supp. 1353 (D.R.I. 1984) .....	26
<i>Gray v. Board of Trustees</i> , 342 U.S. 517 (1952) .....	13
<i>Great Western Sugar Co. v. Nelson</i> , 442 U.S. 92 (1979) .....	9
<i>Hammond Clock Co. v. Schiff</i> , 293 U.S. 529 (1934) .....	8, 10
<i>Hendrickson v. Secretary of Health &amp; Human Services</i> , 774 F.2d 1355 (8th Cir. 1985) .....	8
<i>Hewitt v. Helms</i> , 482 U.S. 755 (1987) .....	27
<i>Hill v. Western Electric Co.</i> , 672 F.2d 381 (4th Cir.), cert. denied, 459 U.S. 981 (1982) .....	16
<i>Honig v. Doe</i> , 484 U.S. 305 (1988) .....	7, 8
<i>Honig v. Students of Cal. School for the Blind</i> , 471 U.S. 148 (1985) .....	13
<i>Hutchinson v. Cox</i> , 784 F. Supp. 1339 (S.D. Ohio 1992) .....	26
<i>Iron Arrow Honor Soc'y v. Heckler</i> , 464 U.S. 67 (1983) .....	7
<i>J. Aron &amp; Co. v. Mississippi Shipping Co.</i> , 361 U.S. 115 (1959) .....	9
<i>Karcher v. May</i> , 484 U.S. 72 (1987) .....	11
<i>Kasper v. Board of Education Comm'rs</i> , 814 F.2d 332 (7th Cir. 1907) .....	28
<i>Kennedy v. Block</i> , 784 F.2d 1220 (4th Cir. 1986) .....	8

## VI

## Cases—Continued:

	Page
<i>Lake Coal Co. v. Roberts &amp; Schaefer Co.</i> , 474 U.S. 120 (1985) .....	8, 9
<i>Lewis v. Continental Bank Corp.</i> , 494 U.S. 472 (1990) ..	7
<i>Long Island Lighting Co. v. Cuomo</i> , 888 F.2d 230 (2d Cir. 1989) .....	12, 16
<i>Marek v. Chesny</i> , 473 U.S. 1 (1985) .....	15
<i>Marshall v. Whittaker Corp., Berwick Forge &amp; Fabricating Co.</i> , 610 F.2d 1141 (3d Cir. 1979) .....	16
<i>Martinez v. Winner</i> , 800 F.2d 230 (10th Cir. 1986) .....	16
<i>Memorial Hospital, In re</i> , 862 F.2d 1299 (7th Cir. 1988) .....	8, 11, 18, 25, 27
<i>Mills v. Green</i> , 159 U.S. 651 (1895) .....	8
<i>Montana v. United States</i> , 440 U.S. 147 (1979) ....	19, 21, 27
<i>National Union Fire Ins. Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) .....	8, 11
<i>Nestle Co. v. Chester's Market, Inc.</i> , 756 F.2d 280 (2d Cir. 1985) .....	8, 16, 20, 23
<i>No East-West Highway Comm., Inc. v. Chandler</i> , 767 F.2d 21 (1st Cir. 1985) .....	16
<i>Parklane Hosiery Co. v. Shore</i> , 439 U.S. 322 (1979) .....	19, 24
<i>Pioneer Invest. Servs. Co. v. Brunswick Assocs. Ltd. Partnership</i> , 113 S. Ct. 1489 (1993) .....	24
<i>Pontarelli Limousine, Inc. v. City of Chicago</i> , 929 F.2d 339 (7th Cir. 1991) .....	16
<i>Preiser v. Newkirk</i> , 422 U.S. 395 (1975) .....	13
<i>Quarles v. Sager</i> , 687 F.2d 344 (11th Cir. 1982) .....	16
<i>Radiofone, Inc. v. FCC</i> , 759 F.2d 936 (D.C. Cir. 1985) ..	26
<i>Ringsby Truck Lines, Inc. v. Western Conference of Teamsters</i> , 686 F.2d 720 (9th Cir. 1982) .....	8, 11
<i>Rufo v. Inmates of Suffolk County Jail</i> , 112 S. Ct. 748 (1992) .....	28
<i>Savidge v. Fincannon</i> , 836 F.2d 898 (5th Cir. 1988) .....	16
<i>Solorio v. United States</i> , 483 U.S. 435 (1987) .....	24
<i>Sosna v. Iowa</i> , 419 U.S. 393 (1975) .....	7

## VII

## Cases—Continued:

	Page
<i>St. Luke's Fed'n of Nurses &amp; Health Professionals v. Presbyterian/St. Luke's Medical Center</i> , 459 U.S. 1025 (1982) .....	10
<i>Standefer v. United States</i> , 447 U.S. 10 (1980) .....	21
<i>Steffel v. Thompson</i> , 415 U.S. 452 (1974) .....	7
<i>Stewart v. Southern Ry.</i> , 315 U.S. 283 (1942) .....	9
<i>Studio 1712, Inc. v. Etna Products Co.</i> , 968 F.2d 10 (10th Cir. 1992) .....	8
<i>United Airlines, Inc. v. McDonald</i> , 432 U.S. 385 (1977) .....	9
<i>United States v. Alaska S.S. Co.</i> , 253 U.S. 113 (1920) .....	8
<i>United States v. Articles of Drug</i> , 818 F.2d 569 (7th Cir. 1987) .....	16, 25
<i>United States v. Anaya</i> , 509 F. Supp. 289 (S.D. Fla. 1980), aff'd, 685 F.2d 1272 (11th Cir. 1982) .....	26
<i>United States v. Mendoza</i> , 464 U.S. 154 (1984) .....	1, 19, 20, 23, 25
<i>United States v. Miami</i> , 664 F.2d 435 (5th Cir. 1981) .....	28
<i>United States v. Munsingwear, Inc.</i> , 340 U.S. 36 (1950) .....	4, 5, 9, 11, 16, 22
<i>United States v. W.T. Grant Co.</i> , 345 U.S. 629 (1953) ..	15
<i>United States, In re</i> , 927 F.2d 626 (D.C. Cir. 1991) .....	8, 11, 25
<i>U.S. Philips Corp. v. Windmere Corp.</i> , 861 F.2d 695 (Fed. Cir. 1988), cert. denied, 490 U.S. 1068 (1989) .....	2-3
<i>Velsicol Chem. Corp. v. United States</i> , 435 U.S. 942 (1978) .....	18
<i>Webster v. Reproductive Health Services</i> , 492 U.S. 490 (1989) .....	12
<i>Weinstein v. Bradford</i> , 423 U.S. 147 (1975) .....	13
<i>Williams v. First National Bank</i> , 216 U.S. 582 (1910) .....	15



# VIII

Constitution and statute:	Page
U.S. Const. Art. III .....	26
28 U.S.C. 1292(b) .....	5
Miscellaneous:	
Fisch, <i>Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement And Vacatur</i> , 76 Cornell L. Rev. 589 (1991) .....	17
Greenbaum, <i>Mootness on Appeal in Federal Courts: A Reexamination of the Consequences of Appellate Disposition</i> , 17 U.C. Davis L. Rev. 7 (1983) .....	10, 16, 17, 18, 22, 23-24, 26
1B J. Moore, J. Lucas & T. Carrier, <i>Moore's Federal Practice</i> (2d ed. 1993) .....	28
Note, <i>Avoiding Issue Preclusion By Settlement Conditioned Upon The Vacatur Of Entered Judgments</i> , 96 Yale L.J. 860 (1987) .....	15
Note, <i>Collateral Estoppel and Supreme Court Disposition of Moot Cases</i> , 78 Mich. L. Rev. 946 (1980) .....	18, 22
Note, <i>Collateral Estoppel Effects of Judgments Vacated Pursuant to Settlement</i> , 1987 U. Ill. L. Rev. 731 .....	10, 20, 24
Note, <i>Settlement Pending Appeal: An Argument For Vacatur</i> , 58 Fordham L. Rev. 233 (1989) .....	15, 16, 23
Priest & Klein, <i>The Selection of Disputes for Litigation</i> , 13 J. Legal Stud. 1 (1984) .....	17
Restatement (Second) of Judgments (1982) .....	21, 23
Schuck, <i>The Role of Judges in Settling Complex Cases: The Agent Orange Example</i> , 53 U. Chi. L. Rev. 337 (1986) .....	17
R. Stern, E. Gressman, & E. Shapiro, <i>Supreme Court Practice</i> (6th ed. 1986) .....	9
Will, Meerhige & Rubin, <i>The Role of the Judge in the Settlement Process</i> , 75 F.R.D. 203 (1976) .....	16
13A C. Wright, A. Miller & E. Cooper, <i>Federal Practice and Procedure</i> (2d ed. 1984 & Supp. 1993) .....	18, 20, 21

# In the Supreme Court of the United States

OCTOBER TERM, 1992

No. 92-1123

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA, PETITIONER

v.

U.S. PHILIPS CORPORATION, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES  
AS AMICUS CURIAE SUPPORTING RESPONDENTS

## INTEREST OF THE UNITED STATES

The federal government "is a party to a far greater number of cases on a nationwide basis than even the most litigious private entity." *United States v. Mendoza*, 464 U.S. 154, 159 (1984). As a party to numerous cases in the federal system that involve recurring issues of public importance (*id.* at 159-163), the federal government is vitally interested in the question of whether vacatur is available when parties settle cases on appeal.



## STATEMENT

1. Petitioner is a manufacturer of electric razors. Pet. 2. Petitioner sells its razors to distributors in the United States, including Windmere Corporation (Windmere) and Sears, Roebuck & Co. (Sears). Pet. 2-3. In February, 1984, petitioner agreed to indemnify Windmere for claims arising from the sale of petitioner's razors, including any expenses associated with litigation. Pet. App. A11-A12.<sup>1</sup>

In October 1984, U.S. Philips Corporation and North American Philips Corporation (Philips) filed suit in the United States District Court for the Southern District of Florida against petitioner and Windmere. The suit alleged that petitioner and Windmere had infringed Philips' rotary electric shaver patent and that Windmere had engaged in unfair competition by infringing the trade dress rights Philips claimed for the configuration of its shaver. J.A. 12a-20a. Windmere filed an antitrust counterclaim against Philips and its related Dutch corporation, N.V. Philips Gloeilampenfabrieken (also referred to as Philips).

A jury found for Philips on its patent infringement claim and awarded it \$6,500 in damages. J.A. 21a. Final judgment on that claim was entered in 1986, and neither petitioner nor Windmere appealed that judgment. Pet. App. A2; Pet. Br. 3. The jury returned a verdict in favor of Windmere on Philips' unfair competition claim, apparently finding that Philips' alleged trade dress was functional and therefore not protectable. The district court, however, ordered a new trial on Philips' unfair competition claim and directed a verdict for Philips on Windmere's antitrust counterclaim. Pet. App. A28-A29; J.A. 21a, 25a-40a.

Windmere took an interlocutory appeal to the United States Court of Appeals for the Federal Circuit from the directed verdict in favor of Philips on Windmere's antitrust counterclaim. That court reversed the directed verdict and remanded for a new trial on the counterclaim. See *U.S. Philips Corp. v.*

<sup>1</sup> Petitioner apparently has a similar agreement with Sears. Pet. Br. 7.

*Windmere Corp.*, 861 F.2d 695 (1988), cert. denied, 490 U.S. 1068 (1989); J.A. 45a-78a.

2. After a second trial, the jury returned a verdict for Windmere on both Philips' unfair competition claim and Windmere's antitrust counterclaim.<sup>2</sup> The jury awarded Windmere more than \$89 million in trebled damages on its antitrust counterclaim, plus attorney's fees, interest, and costs. The district court entered separate judgments for Windmere on the claim and counterclaim. Pet. App. A7-A8; Pet. Br. 3.

Philips appealed both judgments to the Federal Circuit. Before the court of appeals decided the appeals, however, Philips and Windmere reached a settlement of their dispute. Philips agreed to pay Windmere \$57 million, and the parties agreed to execute mutual general releases. In addition, the parties agreed that they would jointly request the court of appeals to vacate the district court's judgments on Philips' unfair competition claim and on Windmere's antitrust counterclaim, although Windmere's right to receive the \$57 million was to be unaffected if the court of appeals declined to do so. Pet. App. A17-A21. After Philips and Windmere filed that joint motion, petitioner sought to intervene on appeal for purposes of opposing vacatur. J.A. 162a-165a.

3. The court of appeals vacated the judgments of the district court and remanded with instructions to dismiss the case with prejudice. Pet. App. A1-A6. The court first held that petitioner lacked standing to oppose vacatur of the district court's judgments. *Id.* at A2-A5. The court explained that petitioner "is not a party to this appeal or any aspect thereof, was not a party to the trial of these claims, and did not file an appearance in the district court trial of these issues." *Id.* at A3.<sup>3</sup> The court also found that petitioner's status as

<sup>2</sup> Petitioner apparently financed Windmere's expenses in defending against the unfair competition claim at the second trial, but did not participate as a party. Pet. Br. 2-3; Pet. 4; Jt. Br. in Opp. 2.

<sup>3</sup> The court noted that petitioner did not contradict Philips' assertion that petitioner "took affirmative steps [before the district court] to avoid

Windmere's indemnitor was insufficient to confer standing, noting that the certificate of interest filed in the appeal identified Windmere as the real party in interest and that petitioner had not sought either intervention or joinder before the district court. Pet. App. A4.<sup>4</sup>

The court of appeals then granted the parties' joint motion to vacate. Pet. App. A5-A6. Stating that it did "not view vacatur as automatic under all circumstances," the court noted that, under its precedents, "vacatur of the judgment at trial is appropriate when settlement moots the action on appeal." *Id.* at A5. The court explained that this Court's decisions in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950), and *City Gas Co. v. Consolidated Gas Co.*, 111 S. Ct. 1300 (1991), provided authority for that approach. Pet. App. A5. The court declined to follow the decisions of other courts of appeals that do not vacate district court judgments upon settlement, observing that "the settlement [in this case] \* \* \* includes all parties to the appeal" and that "[a]ll of the claims of the judgments were appealed, and have now become entirely moot." *Id.* at A6.

4. In 1985, before the court of appeals' decision in this case, Philips had brought an action in the United States District Court for the Northern District of Illinois against petitioner and Sears. In that action, Philips alleged that petitioner and Sears had infringed its patents and that Sears had engaged in unfair competition in selling petitioner's razors. Pet. App. A22-A30, A36-A38; Pet. Br. 4-5. After the Florida district court in the instant case entered judgment on the unfair

being characterized or involved as a party in the trial of these counts." Pet. App. A3.

<sup>4</sup> The court also rejected petitioner's argument that it had standing to oppose vacatur because the district court's judgment had served as the basis for a grant of summary judgment on preclusion grounds in another lawsuit then pending in Illinois involving Philips, petitioner, and Sears. Pet. App. A4; see *id.* at A22-A30; pp. 4-5, *infra*. The court explained that petitioner was not a party to the claim on which judgment was entered in the Illinois action. Pet. App. A4.

competition claim in favor of Windmere, the Illinois district court granted summary judgment in favor of Sears on Philips' unfair competition claim, finding that the Florida judgment precluded relitigation of that issue. Pet. App. A28-A30.<sup>5</sup>

Thereafter, as a result of the Federal Circuit's vacatur of the Florida district court's judgment in this case, the Illinois district court vacated its previous summary judgment order and reinstated Philips' unfair competition claim against Sears. Pet. App. A37-A44. The Federal Circuit has authorized an interlocutory appeal from that decision under 28 U.S.C. 1292(b), and that appeal is presently pending. Pet. App. A46-A49; Pet. 5 n.5.

### SUMMARY OF ARGUMENT

I. Under *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), federal appellate courts are generally required to grant a motion to vacate the judgment below when a case becomes moot while pending on appeal. This Court has consistently followed the *Munsingwear* procedure in cases that become moot by reason of the parties' settlement when the settlement includes a request for vacatur. To be sure, *Munsingwear* involved mootness resulting from "happenstance"—an extrinsic event—rather than agreement of the parties, but this Court's cases make clear that *Munsingwear* is not limited to the context of mootness by happenstance. Rather, vacatur is appropriate whenever a case pending on appeal becomes moot as a result of either the parties' mutual agreement or the unilateral conduct of the party that prevailed below.

II. The Court's practice of vacating the judgment below when a pending case becomes moot as a result of the parties'

<sup>5</sup> Petitioner had filed antitrust counterclaims against Philips in the Illinois action based upon the antitrust judgment for Windmere in the instant case. Pet. App. A36, A44-A45; Pet. Br. 5. The Illinois district court dismissed those counterclaims on the ground that they were compulsory counterclaims to Philips' patent infringement claims against petitioner in the Florida action and were therefore barred by petitioner's failure to raise them in that case. Pet. App. A44-A45.



settlement is consistent with considerations of fairness and public policy.

A. Voluntary settlement of disputes is strongly favored in the law, because it fosters judicial economy, economic efficiency, and the public and private interests in the just resolution of disputes. A general rule of vacatur upon settlement furthers those interests by removing disincentives to settlement in cases that are pending on appeal. Absent vacatur, settlement will be impossible to achieve in many cases, because the preclusive or precedential effects of the judgment below may be regarded as unacceptable by the losing party. That concern is particularly strong in cases involving the government and other institutional litigants, for whom the preclusive and precedential effects of an adverse judgment may be more significant than the more immediate impact of the judgment or the cost of settlement.

B. Petitioner asserts that the foregoing interests are outweighed by countervailing considerations, particularly the public and private interests supporting the doctrine of nonmutual collateral estoppel. That doctrine is inapplicable to the government, of course, and thus petitioner's argument would have no force in cases in which the government seeks vacatur of an unfavorable judgment. In any event, petitioner's argument lacks merit. Petitioner relies in part on the interests of third parties in taking advantage of the preclusive effects of judgments, but it would be unfair to place those interests above the interests of the parties to the litigation. Moreover, considerations of fairness militate strongly against giving preclusive effect to judgments that have been compromised by the agreement of the parties before being subjected to appellate review, because the correctness and justness of such judgments is called into question.

Petitioner also argues that preserving judgments in settled cases would foster judicial economy by preventing relitigation of issues. The possible future benefits of preclusion are speculative in most cases, however, and are outweighed by the immediate benefits of permitting vacatur in order to facilitate

settlements. Petitioner would apparently have the courts weigh these various factors on a case-by-case basis, but that approach would create uncertainty, thereby discouraging settlement and burdening the courts with additional decision-making obligations.

Finally, petitioner points to the precedential value of judgments. The precedential force of district court judgments is open to question, however, and in any event there is no justification for placing the precedential value of decisions ahead of the interest of the parties in resolving their dispute.

For these reasons, vacatur is generally appropriate when the parties request that disposition in a case that is rendered moot by settlement. Even if the Court were to reject that general rule in favor of a more flexible approach, we submit that a proper balancing of the relevant interests would usually lead to the conclusion that vacatur is called for.

### ARGUMENT

"Federal courts lack jurisdiction to decide moot cases because their constitutional authority extends only to actual cases or controversies." *Iron Arrow Honor Soc'y v. Heckler*, 464 U.S. 67, 70 (1983) (per curiam); see *Church of Scientology v. United States*, 113 S. Ct. 447, 449 (1993); *Deakins v. Monaghan*, 484 U.S. 193, 199 (1988). A corollary to that basic principle is that the parties' dispute must exist at every stage of the litigation. "It is not enough that a controversy existed at the time the complaint was filed." *Deakins v. Monaghan*, 484 U.S. at 199; *Sosna v. Iowa*, 419 U.S. 393, 402 (1975); *Steffel v. Thompson*, 415 U.S. 452, 459 n.10 (1974); see also *Honig v. Doe*, 484 U.S. 305, 329 (1988) (Rehnquist, C.J., concurring). "[A]n actual controversy must exist at all stages of appellate review." *Ibid.*; see *Lewis v. Continental Bank Corp.*, 494 U.S. 472, 477-478 (1990).

Under the foregoing principles, when the parties to a case enter into a settlement agreement that fully resolves their dispute, the case is rendered moot, and the federal courts are thereby deprived of jurisdiction to decide the case on the



merits.<sup>6</sup> If the settlement occurs while the case is pending on appeal, however, a further question arises: what effect should the settlement-induced mootness have on the judgment already entered by the district court?<sup>7</sup> In our view, both this Court's precedents and considerations of fairness and public policy support a general rule of vacatur of district court judgments when settlement renders a case moot while on appeal.<sup>8</sup>

<sup>6</sup> See *Lake Coal Co. v. Roberts & Schaefer Co.*, 474 U.S. 120, 120 (1985) (per curiam); *Hammond Clock Co. v. Schiff*, 293 U.S. 529, 530 (1934) (per curiam); *United States v. Alaska S.S. Co.*, 253 U.S. 113, 116 (1920) ("Where by an act of the parties . . . the existing controversy has come to an end, the case becomes moot and should be treated accordingly."); *Buck's Store & Range Co. v. AFL*, 219 U.S. 581, 581 (1911); *Mills v. Green*, 159 U.S. 651, 654 (1895); see also *Honig v. Doe*, 484 U.S. 305, 341 (1988) (Scalia, J., dissenting).

<sup>7</sup> The circuits are split on this issue. The Second and Federal Circuits have adopted general rules in favor of vacating the district court's judgment when a case is settled on appeal. See, e.g., *Federal Data Corp. v. SMS Data Prods. Group, Inc.*, 819 F.2d 277, 279-280 (Fed. Cir. 1987); *Nestle Co. v. Chester's Market, Inc.*, 756 F.2d 280, 283-284 (2d Cir. 1985). Similarly, the Fourth, Eighth, Tenth, and Eleventh Circuits appear to grant vacatur when settlement renders a case moot while on appeal, although those courts have not addressed the question at length. See, e.g., *Kennedy v. Block*, 784 F.2d 1220, 1225 (4th Cir. 1986); *Hendrickson v. Secretary of Health & Human Services*, 774 F.2d 1355 (8th Cir. 1985); *Studio 1712, Inc. v. Etna Products Co.*, 968 F.2d 10 (10th Cir. 1992); *Baxter Healthcare Corp. v. Healthdyne, Inc.*, 956 F.2d 226, 227 (11th Cir. 1992). The Third, Seventh, and District of Columbia Circuits, on the other hand, uniformly decline to grant vacatur upon settlement. See, e.g., *Clarendon Ltd. v. Nu-West Industries, Inc.*, 936 F.2d 127, 128-130 (3d Cir. 1991); *In re Memorial Hospital*, 862 F.2d 1299, 1301-1303 (7th Cir. 1988); *In re United States*, 927 F.2d 626, 627-628 (D.C. Cir. 1991). Finally, the Ninth Circuit employs a balancing approach, under which the propriety of vacatur depends upon the relative weight of the public and private interests at stake in a particular case. *National-Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762, 765-769 (9th Cir. 1989); *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720, 721-722 (9th Cir. 1982).

<sup>8</sup> Respondents assert (Jt. Br. in Opp. 4-5) that petitioner is not in a position to challenge the court of appeals' decision because petitioner was not a party below and lacks standing to oppose vacatur of the district

# I. THIS COURT'S PRECEDENTS MANDATE A GENERAL RULE OF VACATUR WHEN A CASE THAT IS PENDING ON APPEAL BECOMES MOOT AS A RESULT OF A SETTLEMENT AGREEMENT THAT CONTEMPLATES VACATUR

In *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), this Court stated that "[t]he established practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here or pending our decision on the merits is to reverse or vacate the judgment below and remand with a direction to dismiss." 340 U.S. at 39. In keeping with that "established practice," the Court has repeatedly emphasized that "[w]here it appears upon appeal that the controversy has become entirely moot, it is the duty of the appellate court to set aside the decree below and to remand the cause with directions to dismiss." *Great Western Sugar Co. v. Nelson*, 442 U.S. 92, 93 (1979) (per curiam); *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267 (1936).

Since *Munsingwear* was decided in 1950, this Court appears to have consistently followed the *Munsingwear* procedure in cases that became moot as a result of settlement while pending before the Court. See, e.g., *Continental Casualty Co. v. Fibreboard Corp.*, 113 S. Ct. 399 (1992) (see Jt. Br. in Opp. App. B1-B3); *City Gas Co. v. Consolidated Gas Co.*, 111 S. Ct. 1300 (1991) (citing *Munsingwear*) (see Jt. Br. in Opp. App. C1-C4); *Lake Coal Co. v. Roberts & Schaefer Co.*, 474 U.S. 120 (1985) (per curiam); *J. Aron & Co. v. Mississippi Shipping Co.*, 361 U.S. 115 (1959) (per curiam); *Black v. Amen*, 355 U.S. 600 (1958) (per curiam); see also *Stewart v. Southern Ry.*, 315 U.S. 784 (1942); *Hammond Clock Co. v.*

court's judgment. We express no opinion on that question. We assume for the sake of our submission, however, that petitioner's claims are properly before the Court. See generally R. Stern, E. Gressman, & S. Shapiro, *Supreme Court Practice* 46-47, 338-340 (6th ed. 1986); *United Airlines, Inc. v. McDonald*, 432 U.S. 385 (1977).

*Schiff*, 293 U.S. 529, 530 (1934) (per curiam).<sup>9</sup> Thus, while the Court has not explained its reasoning in great detail, its past practice supports the conclusion that *Munsingwear* is fully applicable in the settlement context, and that vacatur of the district court's judgment is generally required when the parties seek that result after a case is settled while on appeal.<sup>10</sup>

*Munsingwear* itself, of course, did not involve mootness resulting from settlement. In *Munsingwear*, the government had previously brought suit to enjoin violations of certain commodity price control regulations. The district court

<sup>9</sup> This consistent practice has been noted by commentators. See, e.g., Greenbaum, *Mootness on Appeal in Federal Courts: A Reexamination of the Consequences of Appellate Disposition*, 17 U.C. Davis L. Rev. 7, 39 & n.144 (1983); Note, *Collateral Estoppel Effects of Judgments Vacated Pursuant to Settlement*, 1987 U. Ill. L. Rev. 731, 749 (1987) [hereafter *Collateral Estoppel Effects*]. But cf. *Buck's Stove & Range Co. v. AFL*, 219 U.S. 581 (1911); *Dakota County v. Glidden*, 113 U.S. 222 (1885).

<sup>10</sup> Vacatur is not required when the parties' settlement agreement merely contemplates dismissal of the case pursuant to this Court's Rule 46.1. In that circumstance, the parties have in effect decided to be bound by the judgment below, and thus the case is no different from one in which the losing party simply decides not to seek review in this Court. See, e.g., *St. Luke's Fed'n of Nurses & Health Professionals v. Presbyterian/St. Luke's Medical Center*, 459 U.S. 1025 (1982) (dismissing case pursuant to parties' stipulation). For the same reason, vacatur should not be available when the losing party in the district court simply declines to appeal or unilaterally withdraws its appeal. In such instances, the case is certainly over, but it is not "moot"; to the contrary, the judgment is understood by the parties to have continuing legal effect in the sense that it defines their legal relationship and obligations with respect to the subject matter of the lawsuit. Where the judgment awards the plaintiff damages in a specified amount and the parties settle for a lesser amount without moving to have the judgment vacated, the parties have, in effect, accepted the judgment as a proper resolution of their underlying dispute and settled the plaintiff's distinct claim based on that judgment. Where the parties move to have the judgment vacated, on the other hand, they do not accept the judgment as a proper resolution of their underlying dispute, and the settlement therefore is of the plaintiff's claim in that dispute, rather than of the plaintiff's claim on the judgment.

entered judgment against the government. While the government's appeal was pending, the commodity at issue was decontrolled. The defendant then moved to dismiss the government's appeal as moot, and the court of appeals granted that motion. 340 U.S. at 37. In rejecting the government's subsequent attempt to avoid the res judicata effects of the district court's prior judgment, the Court observed that the government, through "orderly procedure," could have "prevent[ed] [the] judgment, unreviewable because of mootness, from spawning any legal consequences" merely by asking that the district court's judgment be vacated as moot, rather than acquiescing in the dismissal of its appeal. *Id.* at 40-41. As the Court explained, "[t]hat procedure clears the path for future relitigation of the issues between the parties and eliminates a judgment, review of which was prevented through happenstance. When that procedure is followed, the rights of all parties are preserved; none is prejudiced by a decision which in the statutory scheme was only preliminary." *Id.* at 40.

Because *Munsingwear* itself involved mootness by "happenstance," petitioner contends (Br. 20-23) that the *Munsingwear* procedure should be limited to that context and should no longer be followed when mootness results instead from the actions of the parties themselves.<sup>11</sup> In support of that contention, petitioner points (Br. 21-22) to *Karcher v. May*, 484 U.S. 72, 82-83 (1987), in which former state legislative officials, purporting to act on behalf of the legislature, attempted to take an appeal to this Court from a lower court's judgment invalidating a state statute. While the case was pending in this Court, the appellants' successors in office withdrew the appeal. The Court rejected the appellants'

<sup>11</sup> Some courts of appeals have adopted that approach, reasoning that *Munsingwear* applies only when a case has become moot for reasons wholly beyond the control of the appellant. See, e.g., *In re United States*, 927 F.2d at 627-628; *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d at 766; *In re Memorial Hospital*, 862 F.2d at 1301; *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d at 721.



request to vacate the judgment below under *Munsingwear*, explaining (484 U.S. at 83):

This controversy did not become moot due to circumstances unattributable to any of the parties. The controversy ended when the losing party—the [state] Legislature—declined to pursue its appeal. Accordingly, the *Munsingwear* procedure is inapplicable to this case.

Contrary to petitioner's contention, *Karcher* does not render *Munsingwear* inapplicable when mootness results from the mutual agreement of the parties. The dispute in *Karcher* did not become moot by reason of the withdrawal of the appeal, any more than any case becomes moot when the losing party decides to forgo further review of the judgment; rather, the case simply ended when the judgment of the lower court was rendered final and unreviewable. See *Long Island Lighting Co. v. Cuomo*, 888 F.2d 230, 233 & 234 n.4 (2d Cir. 1989). *Karcher* thus was not a case of mootness at all, and *Munsingwear* was therefore inapplicable on its own terms.

This reading of *Karcher* is confirmed by a series of decisions, both before and after *Karcher*, in which this Court has applied *Munsingwear* to cases that became moot as a result of the parties' conduct. Thus, in *Deakins v. Monaghan*, 484 U.S. 193, 199-200 (1988), the respondents (the plaintiffs in the district court) chose to withdraw their claims while the case was pending before this Court. Applying *Munsingwear*, the Court vacated the judgment below and remanded with directions to dismiss. 484 U.S. at 200. Similarly, in *Frank v. Minnesota Newspaper Ass'n*, 490 U.S. 225 (1989) (per curiam), the defendants-appellants changed their position, and the plaintiff-appellee accordingly "state[d] its willingness to forgo any further claim to the . . . relief sought in its complaint." *Id.* at 227. Concluding that the case was moot, the Court vacated and remanded with directions to dismiss. *Ibid.* (citing *Munsingwear*). See also *Webster v. Reproductive Health Services*, 492 U.S. 490, 512-513 (1989); *A.L. Mechling Barge Lines, Inc. v. United States*, 368 U.S. 324, 329 (1961); cf. *Gray v. Board of Trustees*, 342 U.S. 517, 518 (1952) (per

curiam); *Commercial Cable Co. v. Burleson*, 250 U.S. 360, 362 (1919).<sup>12</sup>

As these decisions demonstrate, petitioner errs in contending that *Munsingwear* is inapplicable outside the context of mootness resulting from happenstance. On numerous occasions, the Court has made clear that vacatur is the appropriate response when mootness results from the agreement of the parties or from the unilateral conduct of the party that prevailed below. That result is eminently sound within the broader framework of the mootness doctrine. In a case such as *Munsingwear*, the fact that the case was rendered moot by "happenstance"—i.e., by factors extrinsic to the case or beyond the control of the parties—explains why the lower court judgment should be vacated on the motion of just one of the parties (the losing party below, who has been prevented from obtaining appellate review), even if the prevailing party below might oppose vacatur. But where *all* parties to a particular claim—the only parties immediately

<sup>12</sup> In each of the cases cited in the text, the party who had prevailed below engaged in some form of unilateral conduct that had the effect of rendering the case before the Court moot. In those circumstances, as in the case of settlement, we agree that the *Munsingwear* procedure is applicable. On occasion, however, the Court appears to have followed a similar approach when the party who lost in the court below acted unilaterally to moot the controversy while the case was pending before the Court. See, e.g., *Weinstein v. Bradford*, 423 U.S. 147, 149 (1975) (per curiam); *Preiser v. Newkirk*, 422 U.S. 395, 403-404 (1975); *Board of Regents v. New Left Education Project*, 414 U.S. 807 (1973). In our view, absent unusual circumstances—such as when the losing party complies involuntarily with a preliminary injunction, *Honig v. Students of Cal. School for the Blind*, 471 U.S. 148 (1985), or when a legislative enactment resolves the immediate controversy, *Board of Regents v. New Left Education Project*, *supra*; *Bowen v. Kizer*, 485 U.S. 386 (1988)—the losing party below should not be able to obtain vacatur of an unfavorable judgment in an injunctive action through unilateral action, such as by voluntarily ceasing the allegedly illegal conduct that is the subject of the suit or by otherwise complying with the judgment. See also note 13, *infra*. This case, of course, presents no occasion to address that question, because respondents' dispute did not become moot through the unilateral action of Phillips.



affected by the judgment on that claim—move to have the judgment vacated, there is no reason for the court to look to matters external to the case to determine whether vacatur is proper. Moreover, if, as we have shown (see pp. 12-13, *supra*), the unilateral action of the prevailing party below may render a case moot and properly lead to vacatur of the judgment below, there is no basis in the mootness doctrine for a court to deny vacatur when the prevailing party joins in the losing party's motion for vacatur as part of the settlement of their dispute. Accordingly, the court of appeals did not err in granting respondents' joint motion to vacate the judgment of the district court after respondents settled their differences.

## II. CONSIDERATIONS OF FAIRNESS AND PUBLIC POLICY ALSO SUPPORT A GENERAL RULE OF VACATUR IN CASES THAT BECOME MOOT AS A RESULT OF SETTLEMENT WHILE PENDING ON APPEAL

Petitioner contends (Br. 24-35) that considerations of judicial economy and finality, and the interests of non-parties, require reexamination of the Court's practice of vacating the judgment below and remanding for dismissal when a pending case is rendered moot by voluntary settlement. In our view, however, that established practice strikes the proper balance between the factors identified by petitioner and the strong considerations of policy and fairness supporting the Court's consistent approach in this area.<sup>13</sup>

<sup>13</sup> Our discussion of the propriety of vacatur is limited to those cases in which the settlement agreement actually renders a particular claim moot by achieving a complete resolution of that claim between all of the parties involved. Obviously, if some parties to the claim have not agreed to the settlement, or if the judgment is intended to have some continuing legal effect as a statement of the binding disposition of the underlying claim, the judgment itself is not "moot," and vacatur is inappropriate. Cf. *Coopers & Lybrand v. Livesay*, 437 U.S. 463, 465 n.3 (1978) (case not rendered moot by "tentative" settlement agreement); see also notes 26, 27, *infra*. Similarly, the case is not moot, and *Munsingwear* is therefore inapplicable, if the defendant chooses to comply with the judgment but there is a reasonable

A. 1. The voluntary resolution of legal disputes is strongly favored in the law, because it serves the interests of plaintiffs and defendants as well as important public interests. *Marek v. Chesny*, 473 U.S. 1, 10 (1985); *Williams v. First National Bank*, 216 U.S. 582, 595 (1910); Note, *Avoiding Issue Preclusion By Settlement Conditioned Upon The Vacatur Of Entered Judgments*, 96 Yale L.J. 860, 866 n.41 (1987) [hereafter *Avoiding Issue Preclusion*]; Note, *Settlement Pending Appeal: An Argument For Vacatur*, 58 Fordham L. Rev. 233, 236 & nn.18 & 21, 242 (1989) (collecting authorities) [hereafter *Settlement Pending Appeal*]. First, settlement serves the interests of judicial economy and efficiency by eliminating the necessity for further judicial consideration of the merits of the settled case. See, e.g., *Federal Data Corp v. SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987) (precluding vacatur "is wasteful of the resources of the judiciary" to the extent it prevents settlement); *Avoiding Issue Preclusion*, 96 Yale L.J. at 867. Settlement on appeal may have little direct impact on the congested dockets of the federal district courts (although it does eliminate the potential for time-consuming remands in settled cases); but the courts of appeals are also overburdened, and voluntary resolution of cases pending on appeal is of obvious benefit to those courts—and ultimately to this Court, through the elimination of additional candidates for its certiorari docket.

Second, settlement promotes economic efficiency by capping litigation costs and permitting the parties to devote their resources and attention to more productive conduct. See *Settlement Pending Appeal*, 58 Fordham L. Rev. at 239. In addition, settlement serves both public and private interests in the just resolution of disputes: "One of the fundamental principles of judicial administration is that, in most cases, the absolute result of a trial is not as high a quality of justice as

expectation that the dispute may arise again in the future. See *Deakins v. Monaghan*, 484 U.S. at 200-201 n.4; *United States v. W.T. Grant Co.*, 345 U.S. 629, 632-633 (1953).

is the freely negotiated, give a little, take a little settlement." Will, Merhige & Rubin, *The Role of the Judge in the Settlement Process*, 75 F.R.D. 203, 203 (1976); see *Chemetron Corp. v. Business Funds, Inc.*, 682 F.2d 1149, 1202 n.5 (5th Cir. 1982) (Reavley, J., dissenting), vacated in part, 460 U.S. 1007, cert. denied, 460 U.S. 1013 (1983); *Settlement Pending Appeal*, 58 Fordham L. Rev. at 236.

2. A general rule of vacatur upon settlement eliminates disincentives to settlement on appeal, thus furthering those important interests.<sup>14</sup> Settlement on appeal would often be difficult or impossible to achieve if the parties were foreclosed from securing vacatur of the lower court's judgment in order to effectuate their settlement. The losing party might have a strong interest in avoiding the preclusive effect of the judgment below<sup>15</sup> or in lessening the precedential force of the lower court's ruling,<sup>16</sup> and that party therefore might be

<sup>14</sup> See *Nestle Co. v. Chester's Market, Inc.*, 756 F.2d 280, 282 (2d Cir. 1985); *Long Island Lighting Co. v. Cuomo*, 888 F.2d 230, 234 n.4 (2d Cir. 1989); *Settlement Pending Appeal*, 58 Fordham L. Rev. at 242-243; Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 36-37.

<sup>15</sup> The general rule is that a vacated judgment has no collateral estoppel or res judicata effect. See *United States v. Munsingwear, Inc.*, 340 U.S. at 39-40; *Pontarelli Limousine, Inc. v. Chicago*, 929 F.2d 339, 340 (7th Cir. 1991); *Savidge v. Fincannon*, 836 F.2d 898, 906 & n.33 (5th Cir. 1988); *No East-West Highway Comm., Inc. v. Chandler*, 767 F.2d 21, 24 (1st Cir. 1985); *Dodrill v. Ludt*, 764 F.2d 442, 444 (6th Cir. 1985); *Quarles v. Sager*, 687 F.2d 344, 346 (11th Cir. 1982); *Hill v. Western Electric Co.*, 672 F.2d 381, 387-389 (4th Cir.), cert. denied, 459 U.S. 981 (1982). But see *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), cert. denied, 112 S. Ct. 1761 (1992); *Chemetron Corp. v. Business Funds, Inc.*, 682 F.2d 1149, 1187-1192.

<sup>16</sup> Most courts that have considered the question have concluded that vacatur also deprives the lower court's judgment of its precedential effect. See, e.g., *County of Los Angeles v. Davis*, 440 U.S. 625, 634 n.6 (1979); *Martinez v. Winner*, 800 F.2d 230, 231 (10th Cir. 1986); *DHL Corp. v. Civil Aeronautics Bd.*, 659 F.2d 941, 944 n.4 (9th Cir. 1981); *Marshall v. Whittaker Corp.*, *Berwick Forge & Fabricating Co.*, 610 F.2d 1141, 1145 (3d Cir. 1979); see generally Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 95 n.399 (collecting authorities). But see *United States v. Articles of Drug*, 818 F.2d 569, 572 (7th Cir. 1987). Of course, vacated decisions may still have persua-

unwilling to forgo further appellate review if vacatur is unavailable. That concern is particularly strong in cases involving the government and other institutional litigants, which are often more interested in the precedential effect of the lower court decision than in the details of the particular case. See Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 35 n.130. Thus, a general rule of vacatur when cases become moot through settlement encourages voluntary resolution of disputes.<sup>17</sup>

In contrast, denying vacatur when parties settle cases that are pending on appeal would undoubtedly lead to additional litigation: some parties, even if they could reach mutually

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sive value based on the force of the analysis employed by the court. See *County of Los Angeles v. Davis*, 440 U.S. at 646 n.10 (Powell, J., dissenting); Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 100 & n.417.

<sup>17</sup> Petitioner and its amicus Trial Lawyers for Public Justice express concern (Pet. Br. 32; Trial Lawyers Br. 8) that the practice of granting vacatur when cases settle on appeal will encourage parties to delay settlement until after trial, secure in the knowledge that vacatur will be available in the event of an unfavorable judgment. See also Fisch, *Rewriting History: The Propriety Of Eradicating Prior Decisional Law Through Settlement And Vacatur*, 76 Cornell L. Rev. 589, 632-642 (1991). In our view, that concern is greatly overstated. The cases in which parties are most likely to view vacatur as potentially valuable are those "in which the legal or factual issues are sufficiently complex that it is difficult to predict the outcome of the litigation." *Id.* at 637 n.239. It is in precisely such cases, however, that "[a] pretrial settlement at a value both parties view as reasonable may be impossible to achieve, given the substantial differences in the parties' expectations of the litigation outcome." *Ibid.*; see also Schuck, *The Role of Judges in Settling Complex Cases: The Agent Orange Example*, 53 U. Chi. L. Rev. 337, 339-340 (1986); Priest & Klein, *The Selection of Disputes for Litigation*, 13 J. Legal Stud. 1, 14-16 (1984). Moreover, petitioner's and amicus's argument ignores the very real costs imposed on parties who choose to litigate unsuccessfully rather than settle before judgment is entered by the district court. Litigation is extremely expensive; unfavorable judgments often result in damaging publicity that cannot be eliminated by subsequent vacatur; and the entry of an unfavorable judgment tends to increase dramatically the price of settlement for the losing party by significantly lessening that party's chances of eventual success in the courts.



agreeable settlement terms, would be unable to resolve their dispute voluntarily because of continuing concerns about the effects of the outstanding district court ruling. Indeed, in those circuits that refuse to permit vacatur upon settlement, there is simply "no answer that will satisfy" a litigant who is unable to consummate an otherwise satisfactory settlement because of the unavailability of vacatur. See *In re Memorial Hospital*, 862 F.2d at 1303.<sup>18</sup> In short, to deny litigants the ability to settle cases by obtaining vacatur would frustrate important interests in fairness and judicial economy.<sup>19</sup>

<sup>18</sup> As one leading treatise observes, "[i]t is particularly daunting to contemplate that even after the parties have preferred to surrender the opportunity for appellate review as a matter of right in order to achieve the certainty and economy of settlement, they can do so [in those courts that forbid vacatur on settlement] only if they are willing to submit to nonmutual issue preclusion in litigation with nonparties." 13A C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 3533.10, at 290 (Supp. 1993). In an attempt to respond to that concern, the Seventh Circuit has suggested that "[i]f parties want to avoid stare decisis and preclusive effects, they need only settle before the district court renders a decision, an outcome our approach encourages." *In re Memorial Hospital*, 862 F.2d at 1302. As explained above (see note 17, *supra*), however, that result is often impracticable, particularly in public or complex litigation, in which the legal and factual issues may be novel and difficult to evaluate at an early stage.

<sup>19</sup> This case, of course, involves the question of vacatur as a result of settlement while the case is pending before the court of appeals, and our submission is therefore limited to that question. Some commentators argue, and we agree, that different considerations should apply when a case becomes moot while a petition for certiorari is pending before this Court but has not yet been granted, because whether to grant review on any issue (including mootness) is purely discretionary with the Court. See, e.g., Note, *Collateral Estoppel and Supreme Court Disposition of Moot Cases*, 78 Mich. L. Rev. 946, 953-958 (1980); see also 77-900 U.S. Br. in Opp. at 5-8, *Velsicol Chemical Corp. v. United States*, 435 U.S. 942 (1978) (arguing that Court should simply deny certiorari in moot cases that would not have warranted review on the merits); *Clarke v. United States*, 915 F.2d 699, 713-715 (D.C. Cir. 1990) (en banc) (Edwards, J., dissenting). But cf. Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 43-48.

B. Despite the foregoing considerations, petitioner and its amici assert (Pet. Br. 24-35; Trial Lawyers Br. 2-14; Sears Amicus Br. 4-10) that the court of appeals erred in adopting a general rule of vacatur in cases that settle while pending on appeal. They rely principally on the public and private interests in the finality of judicial decisions, especially as embodied in the doctrine of nonmutual collateral estoppel. As this Court has recognized, nonmutual collateral estoppel serves "the dual purpose of protecting litigants from the burden of relitigating" issues previously litigated by an opposing party and of "promoting judicial economy by preventing needless litigation." *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 326 (1979); see *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 328-329 (1971). In petitioner's view, those interests outweigh the benefits of a general rule of vacatur.

Before addressing the merits of petitioner's argument, we note that the doctrine of nonmutual collateral estoppel is inapplicable to the federal government. *United States v. Mendoza*, 464 U.S. 154 (1984). Thus, even if petitioner's argument had some validity in the context of litigation between private parties, it would have no force in cases in which the federal government seeks vacatur of an adverse lower court judgment as part of a settlement agreement. In such cases, third parties would not be entitled to make preclusive use of the district court's judgment even absent vacatur, so the government's interest in obtaining vacatur could never be outweighed by finality concerns.

In any event, the concerns identified by petitioner and its amici do not justify a departure from the Court's past adherence to the *Munsingwear* procedure in cases that become moot by virtue of settlement. In the first place, the core purpose of finality is to ensure that the parties themselves can rely on a judgment that has become final in the district court or on appeal as a definitive resolution of their dispute. *Montana v. United States*, 440 U.S. 147, 153 (1979). Nothing in that core purpose suggests that the parties themselves should



be barred from jointly obtaining vacatur of a judgment *before* it has become final, in order to implement a settlement as the definitive resolution of their dispute. Moreover, as this Court's decision in *United States v. Mendoza* indicates, the interests favoring application of nonmutual collateral estoppel are not absolute and must give way to countervailing considerations in appropriate circumstances. See 464 U.S. at 163. In our view, the voluntary settlement of cases while pending on appeal is one such circumstance.

1. Petitioner first contends (Br. 27-30) that vacatur is inappropriate because petitioner's interest in preserving the preclusive effect of the district court's judgment outweighs Philips' interest in obtaining vacatur of that judgment. In effect, petitioner argues that the interests of *non*-parties to the litigation should be given greater weight than the interests of the parties themselves. In many cases, the unavailability of vacatur would force parties to expend additional time, effort, and money in prolonging a dispute they would prefer to resolve. We can discern no basis in law or policy for placing the interests of (often free-riding) third parties above the interests of the litigants themselves. See *Nestle*, 756 F.2d at 282-284; *Federal Data Corp.*, 819 F.2d at 279-280; 13A C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* § 3533.10, at 432 (2d ed. 1984); *Collateral Estoppel Effects*, 1987 U. Ill. L. Rev. at 752.<sup>20</sup>

<sup>20</sup> In this case, petitioner paid Windmere's litigation expenses, and it argues (Br. 28-29) that vacatur improperly denies it the benefit of those expenditures. Petitioner, however, was not a party to Philips' unfair competition claim against Windmere, and it chose not to intervene in the litigation of that claim. Moreover, petitioner paid Windmere's litigation expenses because it was obligated to do so as part of the agreement under which Windmere distributed petitioner's shavers. Petitioner's payment of litigation expenses is a contractual matter between it and Windmere; the mere payment of expenses gives petitioner no special right to have a district court judgment preserved over the objection of the parties. If it was important to petitioner to preserve the effect of a judgment in favor of one of its distributors because of the potential preclusive effect of that judgment in suits against other distributors, petitioner could have included

Moreover, the justification for applying nonmutual collateral estoppel is particularly weak, and the countervailing concerns of fairness are heightened, when the judgment at issue was rendered unreviewable on appeal as a result of the original parties' settlement. As this Court has observed, "[t]he estoppel doctrine \* \* \* is premised upon an underlying confidence that the result achieved in the initial litigation was substantially correct. In the absence of appellate review \* \* \* such confidence is often unwarranted." *Standefer v. United States*, 447 U.S. 10, 23 n.18 (1980); see also 13A C. Wright, A. Miller & E. Cooper, *supra*, § 3533.10, at 289 n.22 (Supp. 1993) ("Nonmutual preclusion, always a risky matter, is even riskier when it rests on findings that were not open to the appellate review that is built into our adversary system and that has shaped the nature of trial courts and procedures."). Indeed, one reason for the approach reflected in *Munsingwear* is the Court's recognition of the need to prevent "a decision which in the statutory scheme was only preliminary" from "spawning any legal consequences." 340 U.S. at 40-41.

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a provision in its agreement with Windmere and other distributors that required petitioner's consent to any settlement that would result in vacatur. There is no reason that the established rule of vacatur should be modified to accord petitioner a benefit that it chose not to (or was unable to) secure by contract.

What is more, the settlement was not without its advantages for petitioner. If Philips' appeal had gone forward, petitioner would have been required to pay the additional litigation costs incurred by Windmere, and it is possible that the judgment in Windmere's favor on the unfair competition claim would have been set aside and that Windmere ultimately would have lost on that claim. Petitioner would then have been obligated to indemnify Windmere for any judgment entered against it. See Pet. App. A11-A12. In addition, that adverse judgment presumably would have had a preclusive effect on petitioner (and those in privity with it) in other litigation. See Restatement (Second) of Judgments § 39 (1982); *Montana v. United States*, 440 U.S. at 154-155. For these reasons, if vacatur were denied because of petitioner's objection, petitioner would stand to gain from the settlement while giving up nothing.

To be sure, despite the additional assurances of correctness provided by appellate review,<sup>21</sup> the failure by the losing party to seek such review has not generally been deemed a sufficient justification for denying preclusive effect to a district court judgment. See *Munsingwear*, 340 U.S. at 39. That result makes considerable sense when the parties decline to take an appeal, because their willingness to be bound by the judgment provides some assurance that it reflects a just resolution of their dispute.

The situation is much different, however, when one or more parties appeal, the case is then settled while pending on appeal, and the parties seek vacatur of the district court's judgment. In that circumstance, the parties are *not* willing to be bound by the district court's judgment, but have instead reached their own, often quite different, resolution of their dispute—a resolution that, from the combined perspective of the parties, is more just than the judgment they seek to have vacated. By their very nature, settlement agreements are based on compromise: each party typically contributes to the settlement by retreating from its litigating position to some extent, often because of perceived weaknesses in its case and uncertainty about its chances of ultimate success, as well as the costs of further litigation. The premises underlying the doctrine of nonmutual collateral estoppel therefore weigh against a rule that would require the courts to give full preclusive effect to a judgment that was compromised on appeal, because the prevailing party's willingness to forgo the judgment in its favor and the losing party's unwillingness to be bound by that judgment suggest that full confidence in the correctness and justness of the unreviewed judgment is unwarranted.<sup>22</sup>

<sup>21</sup> See, e.g., Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 17; see also Note, *Collateral Estoppel and Supreme Court Disposition of Moot Cases*, 78 Mich. L. Rev. 946, 954 (1980).

<sup>22</sup> For essentially the same reason, it is well established that application of collateral estoppel is inappropriate when the prior judgment appears to have been the product of a compromise verdict. See Restatement (Second)

2. Petitioner also asserts (Br. 31-33) that a general rule of vacatur undermines the interest in judicial efficiency by forcing the federal courts to adjudicate issues that were previously resolved in another case. As noted above (pp. 16-18, *supra*), however, denying vacatur to parties who settle on appeal would discourage settlement, thereby disserving the very interests in judicial economy that the preclusion doctrines are designed to foster. See *Nestle*, 756 F.2d at 282. For that reason, and because the underlying justification for applying collateral estoppel is diminished in this context in any event, vacatur should not be barred on the ground urged by petitioner. Cf. *United States v. Mendoza*, 464 U.S. at 163 (declining to apply nonmutual collateral estoppel against the United States because "a contrary result might disserve the economy interests in whose name estoppel is advanced" by causing the government to appeal when it would otherwise not do so).

Moreover, while in this case it is clear that the district court's judgment would have been given actual preclusive effect in the Illinois litigation absent vacatur, in most cases the possibility of such future preclusive use is entirely speculative. As a general rule, then, vacatur furthers the immediate and concrete interests of the parties and the courts while potentially undermining only the more remote and hypothetical interests of future litigants and courts. See *Nestle*, 756 F.2d at 284; *Settlement Pending Appeal*, 58 Fordham L. Rev. at 239-240; Greenbaum, *supra*, 17 U.C. Davis

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of Judgments § 29(5) (1982). If "the circumstances \* \* \* suggest that the issue was resolved by compromise[,] \* \* \* taking the prior determination at face value for purposes of the second action would extend the effects of imperfections in the adjudicative process beyond the limits of the first adjudication, within which they are accepted only because of the practical necessity of achieving finality." *Id.* § 29, comment g, at 295; see also *id.* illus. 7.



L. Rev. at 38; *Collateral Estoppel Effects*, 1987 U. Ill. L. Rev. at 753.<sup>23</sup>

Petitioner nevertheless would apparently have the courts weigh the relative interests of the parties and others in light of the particular circumstances of each case in order to determine whether vacatur is appropriate—although tellingly, petitioner does not propose any concrete standards for measuring and balancing the respective interests of parties, non-parties, and the public. Br. 24, 26, 35. That approach would not promote either judicial economy or fairness, because its very unpredictability would discourage settlement and create actual or perceived inequities. Various Members of this Court have noted the problems created by the indeterminate nature of balancing tests, including their unpredictability and inconsistency in result. See, e.g., *Pioneer Invest. Servs. Co. v. Brunswick Assocs. Ltd. Partnership*, 113 S. Ct. 1489, 1503 (1993) (O'Connor, J., joined by Scalia, Souter, and Thomas, JJ., dissenting) ("Reasonable minds often differ greatly on what the equities require."); *Cleveland Board of Education v. Loudermill*, 470 U.S. 532, 562-563 (1985) (Rehnquist, J., dissenting); see also *Solorio v. United States*, 483 U.S. 435, 448-451 (1987) (jurisdictional balancing test overruled as "confusing and difficult" to apply). This concern is particularly weighty for the federal government, which must consider a variety of factors in determining whether to settle or continue litigating any particular lawsuit and which relies heavily on predictability of outcome in making those decisions. See *United States v. Mendoza*, 464 U.S. at 161-162.

An ad hoc balancing test would also impose undue burdens on the courts. Under petitioner's proposed approach, the

<sup>23</sup> The concern for judicial economy is particularly misplaced when the judgment at issue (like the antitrust judgment involved in this case) could give rise to *offensive* collateral estoppel in a subsequent case. As this Court noted in *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 329 (1979), *offensive* collateral estoppel "does not promote judicial economy in the same manner as defensive use does."

courts would be required to analyze and weigh a variety of conflicting factors in determining whether vacatur was appropriate each time it was sought in connection with a settlement. In most cases, moreover, the courts would be required to make that determination without the assistance of an adversary presentation to frame the relevant issues. For that reason as well, the bright-line approach reflected in *Munsingwear* should continue to govern in cases of this type.<sup>24</sup>

3. Finally, petitioner and one of its amici contend (Pet. Br. 33-34; Trial Lawyers Br. 5-7, 9-11) that vacatur of district court judgments should be disfavored because vacatur undermines the public interest in precedent and the development of the law and improperly permits judicial decisions to become mere bargaining chips between the parties. See also *Clarendon Ltd. v. Nu-West Industries, Inc.*, 936 F.2d at 129; *In re United States*, 927 F.2d at 628; *In re Memorial Hospital*, 862 F.2d at 1302-1303. That contention is unpersuasive.

In the first place, the actual precedential value of district court decisions is debatable. See, e.g., *United States v. Articles of Drug*, 818 F.2d 569, 572 (7th Cir. 1987) (noting that "a single district court decision \* \* \* has little precedential effect. It is not binding on the circuit, or even on other district judges in the same district"); *Fox v. Acadia State*

<sup>24</sup> In *Cardinal Chemical Co. v. Morton Int'l, Inc.*, No. 92-114 (May 17, 1993), slip op. 16, this Court recently reemphasized the particularly "strong public interest in the finality of judgments in patent litigation." See *id.* at 17 (discussing "the danger that the opportunity to relitigate [questions of patent invalidity] might, as a practical matter, grant monopoly privileges to the holders of invalid patents"). *Cardinal Chemical* does not shed light on the resolution of the issue in this case, of course, because it did not involve the question of the proper disposition of a case that became moot while pending on appeal. See *id.* at 11-15 (finding that claim of patent invalidity was *not* rendered moot by court of appeals' finding of no infringement). In any event, even if the unique public interest implicated in judgments of patent invalidity were sufficiently strong to justify denial of vacatur when such cases settle on appeal, a general rule of vacatur would still be appropriate in cases that did not involve such issues.



*Bank*, 937 F.2d 1566, 1570 (11th Cir. 1991). District judges do appear to give substantial weight to other district court rulings, however, especially in cases arising in the same judicial district.<sup>25</sup> Furthermore, the government's experience suggests that one district judge's ruling on a novel issue, even if erroneous, will frequently be followed by other district judges, thus necessitating numerous appeals. We therefore agree with petitioner's argument to the extent that it ascribes some precedential weight—in practice if not in theory—to district court decisions.

We do not agree, however, with petitioner's conclusion that whatever precedential value unreviewed (and unreviewable) district court decisions may have militates against a general rule of vacatur.<sup>26</sup> In the first place, as noted above (see pp. 21-22, *supra*), the validity of an unreviewed district court

<sup>25</sup> See, e.g., *Hutchinson v. Cox*, 784 F. Supp. 1339, 1342 (S.D. Ohio 1992); *FDIC v. Cherry, Bekaert & Holland*, 129 F.R.D. 188, 193 n.5 (M.D. Fla. 1989); *Bento v. I.T.O. Corp.*, 599 F. Supp. 731, 740 n.9 (D.R.I. 1984); *Fricker v. Town of Foster*, 596 F. Supp. 1353, 1356 (D.R.I. 1984); *United States v. Anaya*, 509 F. Supp. 289, 293 (S.D. Fla. 1980) (en banc), *aff'd*, 685 F.2d 1272 (11th Cir. 1982).

<sup>26</sup> This case, of course, involves only the propriety of vacatur of district court judgments in cases that are rendered moot by settlement while pending before the court of appeals. Different considerations are present with respect to decisions of administrative agencies. Thus, although the Court has held that *Munsingwear* applies to agency adjudications that become moot while judicial review is pending, see *A.L. Mechling Barge Lines v. United States*, 368 U.S. 324, 329 (1961), we believe a different result is called for when the private parties affected by an agency regulatory ruling settle their differences and seek to have the agency's ruling vacated. In that setting, the agency itself is generally a party to the litigation as well, and it in any event has a legitimate regulatory interest in the preservation of its ruling, particularly to the extent that the ruling announces law to guide the conduct of third parties not presently before the court. Moreover, agencies are not constrained by the case-or-controversy requirement of Article III, so the mootness concerns underlying the *Munsingwear* doctrine have less force in that context. See generally *Radiofone, Inc. v. FCC*, 759 F.2d 936, 940-941 (D.C. Cir. 1985) (opinion of Scalia, J.); Greenbaum, *supra*, 17 U.C. Davis L. Rev. at 54-64.

decision that has been compromised on appeal is open to question. Moreover, petitioner's argument exalts the broader precedential value it ascribes to the district court's decision over the court's central role in resolving concrete disputes between parties. "[T]he purpose for which civil courts have been established" is "the conclusive resolution of disputes within their jurisdictions," *Montana v. United States*, 440 U.S. at 153, and "[i]n all civil litigation, the judicial decree is not the end but the means." *Hewitt v. Helms*, 482 U.S. 755, 761 (1987). Thus, "litigation exists to resolve the parties' genuine grievances; opinions are byproducts." *Bethune Plaza, Inc. v. Lumpkin*, 863 F.2d 525, 531 (7th Cir. 1988); see *Alliance To End Repression v. Chicago*, 820 F.2d 873, 876 (7th Cir. 1987). We therefore believe that the parties' interest in obtaining vacatur outweighs whatever public interest there may be in the precedent that is the byproduct of the judicial resolution of disputes between parties.<sup>27</sup>

4. If the Court rejects the general rule of vacatur in favor of a more flexible approach, we submit that the standards applied by courts in approving consent decrees would provide an appropriate framework for determining whether to grant vacatur in a particular case. In the consent-decree context, a district court does not automatically enter the decree agreed to by the parties; instead, the court "must satisfy [it]self that the decree is consistent with the Constitution and laws, does not undermine the rightful interests of third parties, and is an appropriate commitment of the court's limited resources."

<sup>27</sup> To be sure, there may be unusual circumstances, not present in this case, that would render vacatur inappropriate. In particular, vacatur upon settlement may be inappropriate when the judicial system itself has a distinct and legitimate interest in preserving the judgment below, as when the judgment at issue involves contempt of court or otherwise implicates the authority of the courts, rather than the more generalized interest in the precedential or preclusive value of judicial decisions in cases involving other parties. See *In re Memorial Hospital*, 862 F.2d at 1302-1303. In the contempt situation, for example, the court is in a position analogous to that of a party to a case who has not joined in a settlement entered into by the other parties.

*Kasper v. Board of Education*, 814 F.2d 332, 338 (7th Cir. 1987); see *United States v. Miami*, 664 F.2d 435, 440-441 (5th Cir. 1981) (en banc) (Rubin, J., concurring); 1B J. Moore, J. Lucas & T. Currier, *Moore's Federal Practice* ¶ 0.409[5], at 331 (2d ed. 1993); see also *Rufo v. Inmates of Suffolk County Jail*, 112 S.Ct. 748, 764 (1992); *Firefighters Local No. 93 v. City of Cleveland*, 478 U.S. 501, 525-526, 529-530 (1986). Given the public interest in settlement that would be furthered by the availability of vacatur, and absent any illegality or fraud on the court in the settlement agreement, this approach would generally lead to the conclusion that vacatur should be granted.<sup>28</sup>

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<sup>28</sup> In determining whether vacatur would conflict with the "rightful interests of third parties," the court would not, in our view, be required to consider the interests of non-parties whose only interest derived from the possible preclusive effect of the judgment. Vacatur would merely deprive those third parties of a windfall; it would not affect their "rightful" interests in the sense that a consent decree imposing affirmative obligations or concretely affecting their primary conduct might do. Cf. *Firefighters Local No. 93 v. City of Cleveland*, 478 U.S. at 529-530. Courts considering whether to enter a consent decree do not typically take into account the interests of non-parties who might prefer to have the case proceed to final judgment in order to take advantage of nonmutual collateral estoppel, and there is no reason to follow a different approach in the vacatur context.

## CONCLUSION

The judgment of the court of appeals should be affirmed.  
Respectfully submitted.

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No. 92-1123

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IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,

*Petitioner,*

v.

U.S. PHILIPS CORP., NORTH AMERICAN PHILIPS  
CORP., N.V., PHILIPS GLOEILAMPENFABRIEKEN and  
WINDMERE CORPORATION

*Respondents.*

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ON WRIT OF CERTIORARI TO THE UNITED STATES  
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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BRIEF OF AMICUS CURIAE TRIAL LAWYERS  
FOR PUBLIC JUSTICE IN SUPPORT OF PETITIONER

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## TABLE OF CONTENTS

TABLE OF AUTHORITIES .....	ii
IDENTITY AND INTEREST OF <i>AMICUS CURIAE</i> .....	1
SUMMARY OF ARGUMENT .....	1
ARGUMENT .....	2
I. ROUTINE VACATUR IMPOSES SUBSTANTIAL COSTS ON THE PUBLIC .....	2
A. The Finality of Judgments Conserves Judicial Resources in Other Litigation .....	2
B. The Public Has An Interest in the Finality of Judicial Decisions and in the Development of the Law .....	5
C. Routine Vacatur Discourages Rather Than Promotes Early Settlement .....	7
II. ROUTINE VACATUR DISTORTS THE JUDICIAL PROCESS .....	9
A. Routine Vacatur Permits Judicial Decisions to Become Commodities That Litigants Can Buy and Sell .....	9
B. Routine Vacatur Slants the Law in Favor of Particular Litigants .....	11
CONCLUSION .....	14

## TABLE OF AUTHORITIES

Cases:	Page
<i>Ackermann v. United States</i> , 340 U.S. 193 (1950) . . . . .	8
<i>Bankers Trust Co. v. Hartford Accident and Indemnity Co.</i> , 518 F. Supp. 371, vacated, 621 F. Supp. 685 (S.D.N.Y. 1981) . . . . .	10, 11, 12
<i>Clarendon Ltd. v. Nu-West Industries, Inc.</i> , 936 F.2d 127 (3d Cir. 1991) . . . . .	11, 12
<i>Insurance Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) . . . . .	3
<i>Intel Corp. v. Hartford Accident and Indemnity Co.</i> , 692 F. Supp. 1171 (N.D. Cal. 1988) . . . . .	10
<i>Kitlutsisti v. ARCO Alaska, Inc.</i> , 592 F. Supp. 832 (D. Alaska 1984), vacated, 782 F.2d 800 (9th Cir. 1986) . . . . .	6, 7
<i>Long Island Lighting Co. v. Cuomo</i> , 888 F.2d 230 (2d Cir. 1989) . . . . .	6
<i>Marathon Oil Co. v. Lujan</i> , 751 F. Supp. 1454 (D. Colo. 1990), <i>aff'd in part and rev'd in part</i> , 937 F.2d 498 (10th Cir. 1991) . . . . .	6
<i>Mason Tenders Council Welfare Fund v. Akaty Construction Corp.</i> , 724 F. Supp. 209 . . . . .	4
<i>Mason Tenders District Council Welfare Fund v. Dalton</i> , 648 F. Supp. 1309, vacated upon request of the parties, 648 F. Supp. 1318 (S.D.N.Y. 1986) . . . . .	4
<i>Memorial Hospital v. United States Department of Health &amp; Human Services</i> , 862 F.2d 1299 (7th Cir. 1988) . . . . .	5, 10
<i>Montana v. United States</i> , 440 U.S. 147 (1979) . . . . .	2
<i>National Union Fire Insurance Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) . . . . .	3
<i>Neary v. The Regents of the University of California</i> , 7 Cal. App. 4th 73, 278 Cal. Rptr. 773 (1991), <i>rev'd</i> , 3 Cal. 4th 273, 10 Cal. Rptr. 2d 859, 834 P.2d 119 (1992) . . . . .	7
<i>Nestle Co. v. Chester's Mkt., Inc.</i> , 596 F. Supp. 1445 (D. Conn. 1984) . . . . .	4

## TABLE OF AUTHORITIES (Cont.)

Cases:	Page
<i>Nestle Co. v. Chester's Mkt., Inc.</i> , 756 F.2d 280 (2d Cir. 1985) . . . . .	4, 7
<i>Policeman and Firemen Retirement System v. Income Opportunity Realty Trust</i> , No. C-89-1152 (AJZ) (N.D. Cal. May 16, 1989) . . . . .	7
<i>Reliance Insurance Co. v. Kent Corp.</i> , 896 F.2d 501, vacated, 909 F.2d 424 (11th Cir. 1990) . . . . .	12
<i>SEC v. Glenn W. Turner Enterprises, Inc.</i> , 474 F.2d 476 (9th Cir.), <i>cert. denied</i> , 414 U.S. 821 (1973) . . . . .	6
<i>SEC v. Koscot Interplanetary, Inc.</i> , 497 F.2d 473 (5th Cir. 1974) . . . . .	6
<i>Slater v. Lawyers' Mutual Insurance Co.</i> , 227 Cal. App. 3d 1415, 278 Cal. Rptr. 479 (1991) . . .	13
<i>Tosco Corp. v. Hodel</i> , 611 F. Supp. 1130 (D. Colo. 1985), vacated, 826 F.2d 948 (10th Cir. 1987) . . . . .	6
<i>United States v. Garde</i> , 848 F.2d 1307 (D.C. Cir. 1988) . . . . .	12
<i>U.S. Philips Corp. v. Sears Roebuck &amp; Co.</i> , No. 85-C-5366 (N.D. Ill. Oct. 5, 1990), <i>recons. denied</i> , 1991 U.S. Dist LEXIS 506 (N.D. Ill. Jan. 16, 1991) . . . . .	9
<i>U.S. Philips Corp. v. Windmere Corp.</i> , 971 F.2d 728 (Fed. Cir. 1992) . . . . .	3
<i>Village Escrow Co. v. National Union Fire Ins. Co.</i> , 202 Cal. App. 3d 1309, 248 Cal. Rptr. 687 (1988) . . .	11
<b>Statutes and Rules:</b>	
Fed. R. Civ. P. 60(b) . . . . .	7
Federal Water Pollution Control Act of 1972 . . . . .	7

## TABLE OF AUTHORITIES (Cont.)

Miscellaneous:	Page
Philip Carrizosa, <i>Making the Law Disappear</i> , California Lawyer, Sept. 1989, at 65 . . . . .	12
Jill E. Fisch, <i>Rewriting History: The Propriety of Eradicating Prior Decisional Law through Settlement and Vacatur</i> , 76 Cornell L. Rev. 589 (1991) . . . . .	2, 3, 8
Stacy Gordon, <i>Vanishing Precedents</i> , Business Insurance, June 15, 1992, at 1 . . . . .	13

IDENTITY AND INTEREST OF AMICUS CURIAE<sup>1</sup>

Trial Lawyers for Public Justice, P.C. (TLPJ), is a national public interest law firm that represents victims of the abuse of power in our society. TLPJ selects its cases from among those that will advance the cause of justice, educate the public, modify corporate or government behavior, or improve the access of victims to the courts to remedy injustice. Supported by over 1300 lawyers in the United States and around the world, TLPJ is dedicated to using civil remedies to advance the public good.

We believe that the practice of routinely vacating decisions at the parties' request, if approved by this Court, would pose a grave threat to our civil justice system. Routine vacatur is both inefficient, in that it encourages litigants to delay settlement until after trial and judgment, and destructive of the public values inherent in a final judgment. In this brief, we advocate the rejection of a rule requiring courts to defer to the request of the parties for vacatur and the adoption of a rule requiring courts to deny post-settlement motions for vacatur unless the parties demonstrate that the judgment is infirm or that retention of the judgment is otherwise unfair for reasons not of the parties' making.

## SUMMARY OF ARGUMENT

The practice of routinely granting motions to vacate when a case is settled pending appeal is destructive to the judicial process and should be rejected by this Court. By enabling a judicial decision to be erased, vacatur imposes substantial costs on the public. A judgment's value extends beyond the fact that it resolves a particular dispute: it may have preclusive effect in subsequent litigation; it serves as a precedent, developing the law; and it imposes public accountability on litigants whose actions result in a finding of liability. Courts that have allowed vacatur on the theory that it promotes settlement have been misled by a false economy; by allowing the litigants to escape the consequences of an adverse decision, vacatur reduces the risk to the litigants of going to trial, thereby causing them to delay settlement.

<sup>1</sup> Counsel for all parties have consented to the filing of this brief. Letters of consent have been filed with the Clerk.



Routine vacatur works a harmful distortion on the litigation process. It reduces respect for the judiciary by permitting a judicial decision, the public act of public official, to be bought and sold. It also encourages the parties to use the decision for their private benefit, as a bargaining chip in the post-trial settlement process. This allows the litigants to appropriate the public value of a judgment for themselves. Finally, vacatur does not operate evenhandedly, but allows rich repeat litigants to manipulate the development of the law to their benefit, by buying their way out of unfavorable precedents.

## ARGUMENT

### I. ROUTINE VACATUR IMPOSES SUBSTANTIAL COSTS ON THE PUBLIC.

The primary argument advanced by advocates of routine vacatur is that civil litigation involves disputes among private litigants, and that the courts should do all they can to facilitate the settlement of these disputes. In fact, however, routine vacatur involves significant public costs. Moreover, the availability of routine vacatur discourages rather than encourages settlements by the litigants.

#### A. The Finality of Judgments Conserves Judicial Resources in Other Litigation.

One significant public cost associated with vacatur is the destruction of a judgment's preclusive effect. A final judgment can be used to bar future litigation under the doctrines of res judicata and collateral estoppel. The Court has explained the value of these doctrines in conserving judicial resources, preventing multiplicitous litigation and minimizing the possibility of inconsistent decisions. *Montana v. United States*, 440 U.S. 147, 153-4 (1979). Preclusion thus serves to conserve the resources consumed by litigation and to preserve the public interest in the final resolution of issues, as well as disputes.

Because a vacated decision has no legal effect, vacatur destroys the preclusive value of a judgment. See Jill E. Fisch,

*Rewriting History: The Propriety of Eradicating Prior Decisional Law through Settlement and Vacatur*, 76 Cornell L. Rev. 589, 615-24 (1991) (analyzing effect of vacatur on preclusion). As the facts of this case demonstrate, vacatur may then impose relitigation costs upon future litigants, the courts and the public. The Court of Appeals below vacated a Florida judgment even though it knew that, by doing so, it would force issues decided by that judgment to be relitigated; a district court in Illinois had already granted summary judgment based on the preclusive effect of the Florida judgment. *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728, 730-31 (Fed. Cir. 1992). The public interest in preventing respondent Philips from having a second chance to consume judicial resources should have been a sufficient basis for denying vacatur.

Litigants seek vacatur precisely for the purpose of destroying the preclusive effects of a judgment and gaining a second bite at the apple. Denial of such motions is appropriate because it allows subsequent litigants to resolve previously litigated issues expeditiously without the substantial consumption of resources involved in a second trial. Thus, after National Union was unsuccessful in persuading the court in *National Union Fire Insurance Co. v. Seafirst Corp.*, 891 F.2d 762, 769 (9th Cir. 1989), to vacate the trial court's judgment, subsequent defendants were able to use that judgment to prevent National Union from relitigating its claims against them.<sup>2</sup> By contrast, with the increasingly multi-party nature of litigation, routine vacatur would allow a losing plaintiff, after settlement and vacatur, to seek other targets against whom to reassert identical claims.

It is difficult to determine how often a vacated judgment will have preclusive effect in another case because future litigants who might benefit from preclusion may not be present when the

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<sup>2</sup> After concluding its litigation against Seafirst, National Union attempted to bring similar claims, arising out of the same transaction, against Seafirst's attorneys and accountants. See Fisch, *Rewriting History*, *supra* at 621, notes 165-67 (describing preclusive effect of original judgment).

court rules on a motion to vacate. The court is then reduced to speculation as to the likelihood of preclusion and, lacking clear evidence of future lawsuits, may be inclined to view preclusion as purely hypothetical. See *Nestle Co. v. Chester's Mkt., Inc.*, 756 F.2d 280, 284 (2d Cir. 1985) (describing "plight of hypothetical future defendants facing hypothetical future lawsuits"). The fact that these litigants are not before the court does not render their interest fictitious.<sup>3</sup> It was foreseeable, for example, that vacating the decision in *Nestle Co. v. Chester's Mkt., Inc.*, 596 F. Supp. 1445, 1455 (D. Conn. 1984), would force future competitors to relitigate the rights to use the "toll house" term.

Because the utility of a judgment in subsequent litigation will often extend to situations in which, unlike the present case, the potential beneficiaries of the judgment are not present before the court to defend it, courts should not routinely grant motions to vacate. The very fact that a litigant seeks vacatur of a decision suggests the possibility that the decision may be used against that litigant in subsequent litigation.

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<sup>3</sup> It is not possible to conduct after-the-fact research to ascertain whether courts have vacated valuable decisions; when a decision is vacated prior to the publication of a written opinion, there is often nothing left to inform the public what was decided. The West Reporting system and the on-line Reporting Services (LEXIS and WESTLAW) also allow courts to withdraw vacated opinions from publication. The only traces of such a decision may be a cryptic statement like the following:

EDITOR'S NOTE: The opinion of the United States District Court, S.D.N.Y., *Mason Tenders Council Welfare Fund v. Akaty Construction Corp.*, published in the advance sheet at this citation, 724 F. Supp. 209-224, was withdrawn from the bound volume because the opinion was vacated and withdrawn by order of the Court.

As this example illustrates, unless a researcher had examined the West advance sheets, she would be unlikely to discover that this case involved the relitigation of an issue which had been decided in an earlier lawsuit involving the same plaintiff. Incidentally, the prior lawsuit had also been vacated. *Mason Tenders District Council Welfare Fund v. Dalton*, 648 F. Supp. 1309, *vacated upon request of the parties*, 648 F. Supp. 1318 (S.D.N.Y. 1986).

## B. The Public Has An Interest in the Finality of Judicial Decisions and in the Development of the Law.

The public benefits from judicial decisions extend beyond the preclusive effect of the judgment. As the Seventh Circuit has observed, a judgment is a precedent, produced with public resources and with a value that extends beyond the litigants involved in that case. *Memorial Hospital v. United States Department of Health & Human Services*, 862 F.2d 1299, 1302 (7th Cir. 1988). Although it is sometimes argued that vacatur most frequently involves district court decisions that have little or no precedential value in any event, the volumes of the Federal Supplement in law libraries bear silent testimony to the public value of reported decisions, even at the district court level.<sup>4</sup>

The value of these decisions extends beyond their strict use as precedent. Many judicial decisions require the resolution of complex issues of law and fact. Litigation has become increasingly complicated; many cases involve issues of first impression requiring the interpretation of complex statutes, or the resolution of difficult technical or scientific questions through the assistance of expert testimony.

In addition to clarifying the rights and responsibilities of future litigants, these cases clarify the law for future actors. A detailed district court decision analyzing the clean-up requirements under an environmental statute provides guidance for companies involved in future pollution clean-up outside of the litigation context. A trial which addresses scientific issues such as the toxic effect of hazardous substances may affect the development of administrative safety standards as well as industrial practices for the handling of these substances. A decision resolving issues of intellectual property protection guides inventors' decisions about investing in and protecting future research efforts.

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<sup>4</sup> Moreover, by demonstrating a market for unreported decisions and slip opinions, the on-line reporting services indicate that there is a public value even in decisions that are considered by some too unimportant to publish.



When these decisions are vacated, the resources committed to developing the law have been lost. *See, e.g., Long Island Lighting Co. v. Cuomo*, 888 F.2d 230 (2d Cir. 1989) (vacating 56-page district court opinion interpreting and evaluating the validity of two complex environmental statutes); *Marathon Oil Co. v. Lujan*, 751 F. Supp. 1454 (D. Colo. 1990), *aff'd in part and rev'd in part*, 937 F.2d 498 (10th Cir. 1991) (relitigation of complex issues involving rights to oil shale mining patents under federal mining law after prior district court opinion addressing many of these issues was vacated when the case was settled on appeal.)<sup>5</sup>

Judgments also impose public accountability. A judicial finding of wrongdoing or illegality has public significance that extends beyond the parameters of the litigation itself. A well-known illustration is provided by two circuit court decisions involving Glenn W. Turner Enterprises. In the first, *SEC v. Glenn W. Turner Enterprises, Inc.*, 474 F.2d 476 (9th Cir.), *cert. denied*, 414 U.S. 821 (1973), Glenn Turner was found guilty of securities fraud in connection with the sale of self-improvement courses. The enterprise amounted to a ponzi scheme which the court described as a "gigantic and successful fraud." *Id.* at 478. The second case involved a different method of operation, a cosmetics enterprise, conducted by a Glenn Turner subsidiary. *SEC v. Koscot Interplanetary, Inc.*, 497 F.2d 473 (5th Cir. 1974). Because the two enterprises differed, collateral estoppel did not apply. The Fifth Circuit explained, however, that its task was "greatly simplified by the Ninth Circuit's decision in *SEC v. Glenn W. Turner Enterprises, Inc.*" because the promotional schemes, although technically different, involved parallel fraudulent practices. *Id.* at 484.

When a decision is vacated, both public and private accountability are lost. Thus vacatur of the district court opinion in *Kitlutsisti v. ARCO Alaska, Inc.*, 592 F. Supp. 832, 835-37 (D. Alaska 1984), *vacated*, 782 F.2d 800 (9th Cir. 1986), erased

<sup>5</sup> The prior opinion was *Tosco Corp. v. Hodel*, 611 F. Supp. 1130 (D. Colo. 1985), *vacated*, 826 F.2d 948 (10th Cir. 1987).

a district court finding that the Environmental Protection Agency had failed to perform its statutory duty to process applications for drilling permits under the Federal Water Pollution Control Act of 1972. The court found that the EPA had repeatedly "been using 'creative' administrative techniques of dubious legality to avoid [its] clear statutory mandate . . . of issuing NPDES permits." 592 F. Supp. at 838-44. Similarly, the post-settlement vacatur in *Policeman and Firemen Retirement System v. Income Opportunity Realty Trust*, No. C-89-1152 (AJZ) (N.D. Cal. May 16, 1989), erased the court's holding that the defendant's poison pill/purchase rights plan was illegal.<sup>6</sup>

### C. Routine Vacatur Discourages Rather Than Promotes Early Settlement.

Respondents in this case argue that the judicial practice of routinely vacating a judgment or jury verdict when the case is settled on appeal encourages parties to settle their dispute rather than continuing the appellate process. *See* Respondents' Brief in Opposition to Petition for Certiorari (hereafter "Opp.") at 10. This argument has been accepted by the circuits that follow the practice of routine vacatur; these courts have concluded that submitting to the parties' request for vacatur is necessary to promote settlement. *See, e.g., Nestle Co. v. Chester's Mkt.*, 756 F.2d at 284 (vacatur justified by importance of promoting settlement).<sup>7</sup>

<sup>6</sup> A similar state court practice in *Neary v. The Regents of the University of California*, 7 Cal. App. 4th 73, 278 Cal. Rptr. 773 (1991), *rev'd*, 3 Cal. 4th 273, 10 Cal. Rptr. 2d 859, 834 P.2d 119 (1992), allowed three veterinarians employed by the University of California to reverse, by stipulation, a jury finding that they had libeled a cattle farmer by falsely accusing him of mismanagement in connection with an investigation by state agricultural officials into the death of his cattle. As in *Kitlutsisti*, vacatur erased the finding that officials acting in a public capacity had acted wrongfully.

<sup>7</sup> Absent the proffered interest in promoting settlement, there seems to be little basis for distinguishing a request for vacatur when a case is settled on appeal from any other request to the court under Fed. R. Civ. P. 60(b) for relief from a judgment. The Court has explained that



The argument that vacatur encourages settlement is faulty, however. Although settlement and vacatur put an end to the particular dispute before the court, the systematic practice of granting motions to vacate when a case is settled on appeal encourages parties to delay settlement until after trial. Accordingly, the availability of vacatur actually discourages early settlement and wastes judicial resources in the process.

Vacatur encourages litigants to delay settlement because it removes one of the incentives to settle a case early, the possible consequences of an adverse judgment. In considering whether to settle or go to trial, a litigant must weigh the possibility of losing at trial, and the consequences of that loss, against the possibility of vindication.<sup>8</sup> In many cases, however, the consequences of losing extend beyond the monetary value of the judgment. The collateral consequences of a judgment, as described above, may be even more costly to an unsuccessful litigant than the judgment itself. The litigant's desire to avoid these effects provides an incentive to settle a case early, before a court renders a final judgment. This incentive should be preserved, because early settlement reduces both the public and private costs of litigation.

If a losing party can erase an adverse judgment and its consequences through settlement on appeal and vacatur, the litigant will have less incentive to settle early. A litigant who fears the precedential or preclusive effect of a finding of liability can roll the dice by going to trial, secure in the knowledge that an adverse decision can later be removed. The availability of

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"extraordinary" circumstances are required to justify such relief. *Ackermann v. United States*, 340 U.S. 193, 202 (1950).

<sup>8</sup> This decision has been described in economic terms as an investment decision, in which the litigant continually weighs the expected costs of continued participation in the lawsuit against the expected value of proceeding to final judgment. See Fisch, *Rewriting History*, *supra* at 594 n.21 (citing leading economic models of litigation decisions). Economic models of settlement indicate that, at any point in the litigation process, the litigant will be willing to settle for an amount equal to the expected value of the final judgment minus the costs of achieving that judgment. See *id.* at 632-35 (describing economic model of settlement process).

vacatur thus reduces the risk of going to trial and encourages the litigants to squander the substantial public resources consumed by a trial.<sup>9</sup>

The case at bar illustrates that, by allowing litigants to escape the consequences of an adverse decision, vacatur discourages early settlement. The risk of incurring an adverse ruling which might have preclusive effect in other similar cases might have caused Philips to settle prior to final judgment.<sup>10</sup> Instead, Philips was able to rely on the precedent in the Federal Circuit of routinely granting motions to vacate in cases on appeal (Opp. at 10) and conclude that there would be little cost to litigating the issue to final judgment in Florida. Any deficiencies in the resulting verdict could be remedied through vacatur, and Philips might perhaps benefit from the experience of the Florida litigation when it relitigated the issue in Illinois.

## II. ROUTINE VACATUR DISTORTS THE JUDICIAL PROCESS.

### A. Routine Vacatur Permits Judicial Decisions to Become Commodities That Litigants Can Buy and Sell.

By allowing the parties to erase a judgment upon request, the courts do more than simply squander public resources. They create a process in which judicial decisions, and ultimately the development of the law, become commodities that can be bought and sold. Post-trial settlement negotiations no longer determine monetary payments and the future conduct of the litigants, but whether the judgment will endure. This presents a problem

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<sup>9</sup> Encouraging litigants to delay settlement until after trial is particularly costly because, in terms of the consumption of public resources, trial is generally the most expensive part of the litigation.

<sup>10</sup> Indeed, this risk was not a speculative one; Philips was asserting similar claims in the Northern District of Illinois and could reasonably expect a judgment in the instant case to have preclusive effect in that litigation, absent vacatur. See *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85-C-5366 (N.D. Ill. Oct. 5, 1990), *recons. denied*, 1991 U.S. Dist LEXIS 506 (N.D. Ill. Jan. 16, 1991).

because the judgment is not the private property of the winning litigant, who should not be deciding it should be retained or sold. *See Memorial Hospital*, 862 F.2d at 1302 ("The precedent, a public act of a public official, is not the parties' property."). By converting the judgment into a "bargaining chip," vacatur also diminishes respect for the judiciary. *See id.*

This distorts the legal process in two ways. First, as discussed above, the losing litigant is able to escape the adverse consequences of the judgment. Second, the bartering process results in a windfall to the winning litigant. By selling the judgment, the winner is paid for something that does not belong to it. The winner generally sacrifices nothing in agreeing to free its adversary from the consequences of the adverse decision, which the loser is willing to pay handsomely to eliminate, because the costs imposed on the loser result from the value of the judgment to the public, not the winning litigant.

For example, a successful private litigant in a case like *Nestle* or the case at bar has no reason to defend a judgment if the settlement provides equivalent monetary or other relief. Indeed, a rational litigant will recognize that its bargaining position has been enhanced by its adversary's need to erase the judgment, and may extract additional consideration in exchange for supporting vacatur. The judgment becomes a mere tool for the litigant to exploit.

The settlement in *Bankers Trust Co. v. Hartford Accident and Indemnity Co.*, 518 F. Supp. 371, vacated, 621 F. Supp. 685 (S.D.N.Y. 1981), is illustrative. After the district court found Hartford liable for the cleanup costs of a polluting oil leak, the case was settled and the district court opinion was vacated. The fortuitous disclosure of the settlement terms seven years later in another case revealed that the settlement agreement provided for Hartford to pay Bankers Trust approximately \$200,000 more than the value of Bankers Trust's claim in exchange for the destruction of the district court opinion. *See Intel Corp. v. Hartford Accident and Indemnity Co.*, 692 F. Supp. 1171, 1192 n.32 (N.D. Cal. 1988) (describing contents of affidavit by counsel for Bankers Trust and terms of settlement agreement in

*Bankers Trust* case). Under these circumstances, the litigant has appropriated a portion of the societal value of the judgment for its private gain.

Thus, both litigants may gain from vacatur; the losing party by achieving control over the litigation process, and the winning party by enhancing its settlement position through use of the public values in the judgment. The public and our system of justice lose, and their only guardians are the members of the judiciary. Because both parties benefit from vacatur, the public's interest and the integrity of the judicial process cannot be defended in an uncontested motion to vacate. The settlement transforms the litigation from an adversarial process to a collusive one in which neither party has an incentive to defend the judgment, and the court is forced to act without full knowledge of the potential consequences of a decision to vacate.

#### **B. Routine Vacatur Slants the Law in Favor of Particular Litigants.**

The effect of erasing judicial decisions through routine vacatur extends beyond distorting the development of the law; it inevitably distorts in a particular direction. The reason for this is that certain groups of litigants have both greater ability to affect the legal process through vacatur and greater incentive to do so. Routine vacatur allows repeat players in the litigation process, particularly rich, institutional litigants, to have a disproportionate influence on the development of the law.<sup>11</sup> Several Circuit courts have expressed concern that a litigant with deep pockets can use vacatur to have an adverse decision "wiped from the books." *See, e.g., Clarendon Ltd. v. Nu-West Industries, Inc.*, 936 F.2d 127, 129 (3d Cir. 1991) ("a losing

<sup>11</sup> *See Village Escrow Co. v. National Union Fire Ins. Co.*, 202 Cal. App. 3d 1309, 248 Cal. Rptr. 687, 696 (1988) (observing that social cost of letting litigants buy their way out of unfavorable decisions "could even distort the law by allowing parties who possess ample means to prevent the filing of adverse precedents while those without means are unable to do so."). The California Supreme Court denied review and ordered depublishation of the *Village Escrow* decision. 248 Cal. Rptr at 687 n.\*.



party with a deep pocket should not be permitted to use a settlement to have an adverse precedent vacated"); *United States v. Garde*, 848 F.2d 1307, 1311 (D.C. Cir. 1988) (declining to "encourage litigants who are dissatisfied with the decision of the trial court 'to have them wiped from the books'").

Insurance companies are one example of the kind of litigants who benefit disproportionately from vacatur and who can use vacatur to distort the development of the law. An insurance company is likely, because of the nature of its business, to face some issues repeatedly, such as the interpretation of standard policy clauses, coverage issues, etc. It therefore has a considerable stake in having the law develop favorably with respect to those issues and an incentive that extends beyond any single case in destroying unfavorable interpretations of the law. Although the absence of a smoking gun when a judgment is vacated makes it difficult to determine the frequency with which this occurs, one prominent insurance company lawyer has been quoted as claiming close to a 50% success rate in getting adverse appellate court decisions wiped out. See Philip Carrizosa, *Making the Law Disappear*, California Lawyer, Sept. 1989, at 65-66 (quoting Ellis J. Horvitz of Horvitz & Levy).

The *Reliance Insurance* litigation is illustrative of this practice. A decision by the Eleventh Circuit in *Reliance Insurance Co. v. Kent Corp.*, 896 F.2d 501, vacated, 909 F.2d 424 (11th Cir. 1990), reversing a district court's grant of summary judgment in favor of Reliance, had the potential to broaden an insurance company's obligation to defend significantly. Shortly after the circuit opinion was issued, the parties settled and the opinion was vacated. See *Reliance Ins. Co. v. Kent Corp.*, 909 F.2d 424 (11th Cir. 1990) (vacating panel opinion in light of settlement). Thus the insurance industry removed a dangerous precedent from the books. Similarly, the decision in *Bankers Trust Co. v. Hartford Accident and Indemnity Co.*, 518 F. Supp. 371, vacated, 621 F. Supp. 685 (S.D.N.Y. 1981), if not vacated, would have established a valuable precedent for insurance policyholders seeking coverage

for environmental cleanup costs.<sup>12</sup> The insurance industry had both the incentive and the funds to destroy this pro-policyholder decision. By destroying adverse decisions, the industry can continue to argue in future cases that the weight of authority is on its side, regardless of how many interim losses it sustains.<sup>13</sup>

The insurance industry is only one example. Certain types of litigation, including products liability, toxic tort cases, and employment discrimination claims, frequently pit an individual plaintiff with limited litigation experience and interest against an institutional defendant with repeated exposure to the litigation process. The defendants in these cases have both the reason and the resources to "roll the dice" and then, if the gamble fails to pay off, to buy out unfavorable decisions. The plaintiffs do not.

The availability of routine vacatur only increases the ability of these defendants to "play hardball" by forcing adversaries with limited resources to choose between settling cheaply or bearing the expense and risks of trial. Through their ability to purchase and destroy adverse verdicts, these defendants may also delay and conceal public awareness of their wrongdoing. A potential plaintiff who has been injured by a defendant's toxic waste or dangerous product, for example, may search in vain for precedents establishing causation and liability, unaware that the defendant has caused any unfavorable judgments to be erased.

<sup>12</sup> Stacy Gordon, *Vanishing Precedents*, Business Insurance, June 15, 1992, at 1.

<sup>13</sup> See *Slater v. Lawyers' Mutual Insurance Co.*, 227 Cal. App. 3d 1415, 278 Cal. Rptr. 479 (1991) (Johnson, J., dissenting) (criticizing this practice). Judge Johnson observed:

[T]he "weight of authority" . . . is inconclusive on this issue. It is also deceiving, because it has been shaped in part by the well conceived litigation strategy of at least one of the insurance companies involved in these appeals. One important appellate decision . . . has been purged from the law books as a result of a settlement agreement between that insurance company and the successful appellant. A determined attempt was made to do the same in another case.

*Id.* at 1427.



In the end, the process subverts both the public interest and our system of justice.

### CONCLUSION

For these reasons, we urge this Court to reject the rule that parties who settle a case pending appeal are entitled to vacatur as a matter of right. Instead, the courts should review motions to vacate with the presumption that vacatur will not be granted at the request of the parties. Absent a showing that the underlying judgment is infirm, courts should be directed to deny motions to vacate a case that has been settled pending appeal. Accordingly, the judgment of the Federal Circuit should be reversed.

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April 22, 1993

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No. 92-1123

IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE  
SEARS, ROEBUCK & CO. ON THE MERITS  
IN SUPPORT OF PETITIONER

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IN THE  
SUPREME COURT OF THE UNITED STATES  
OCTOBER TERM, 1992

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*

*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

---

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

---

MOTION OF SEARS, ROEBUCK & CO. FOR LEAVE  
TO FILE AMICUS CURIAE BRIEF

---

Sears, Roebuck & Co. ("Sears") respectfully requests leave to file the accompanying brief as *amicus curiae* in support of Petitioner. Sears has sought consent to file its brief from Petitioner Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") and the Philips Respondents ("Philips")\*. Petitioner has granted consent, but Philips has refused. Sears has a direct interest in the resolution of this case.

The Court has granted certiorari to consider whether courts of appeals should routinely vacate lower court

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\*U.S. Philips Corporation, North American Philips Corporation, and N.V. Philips Gloeilampenfabrieken.



(ii)

judgments when cases are settled while on appeal. This case, in particular, involves the Federal Circuit's order vacating a Florida district court's judgment that rejected Philips' trade dress claim against a distributor of Izumi's rotary electric shaver. In an action filed in the district court in Illinois, Philips has brought a similar trade dress claim against Sears, which is also a distributor for Izumi. Sears defense of issue preclusion based on the Florida judgment — accepted by the Illinois district court until the Federal Circuit vacated the Florida judgment — is directly placed in jeopardy by the vacatur. Indeed, because of the Federal Circuit's vacatur order, Philips' trade dress claim has been reinstated by the Illinois court. Sears thus has an immediate and substantial interest in this Court's reversal of the Federal Circuit decision.

Sears' perspective will also assist the Court in its consideration of the case. One of the central issues presented is whether third-party interests like Sears' should be considered before a final judgment is vacated at the behest of the parties who settle on appeal. Sears respectfully submits that by presenting arguments against automatic vacatur following settlement from the standpoint of a party actually affected in this case by that practice, Sears' *amicus curiae* brief will materially assist the Court in resolving the issues before it.

(iii)

Accordingly, Sears urges the Court to grant this motion.

Respectfully submitted,

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(v)

QUESTION PRESENTED

Whether the United States Court of Appeals for the Federal Circuit properly vacated the final judgment of the Southern District of Florida at the request of Philips and Windmere after they settled during appeal?

TABLE OF CONTENTS

	Page
QUESTION PRESENTED. . . . .	v
INTEREST OF THE AMICUS. . . . .	1
FACTS . . . . .	2
SUMMARY OF THE ARGUMENT. . . . .	4
ARGUMENT . . . . .	4
CONCLUSION . . . . .	10

TABLE OF AUTHORITIES

Cases:

<i>Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation</i> , 402 U.S. 313 (1971). . . . .	4, 5
<i>Compco Corp. v. Day-Bright Lighting, Inc.</i> , 376 U.S. 234 (1964) . . . . .	5
<i>Karcher v. May</i> , 484 U.S. 72 (1987) . . . . .	6
<i>In re Memorial Hospital of Iowa County, Inc.</i> , 862 F.2d 1299 (7th Cir. 1988) . . . . .	8, 9
<i>National Union Fire Insurance Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) . . . . .	6, 7, 9
<i>Ringsby Truck Lines, Inc. v. Western Conference of Teamsters</i> , 686 F.2d 720 (9th Cir. 1982) . . . . .	5, 6
<i>Sears, Roebuck &amp; Co. v. Stiffel Co.</i> , 376 U.S. 225 (1964). . . . .	5
<i>In re United States</i> , 927 F.2d 626 (D.C. Cir. 1991) . . . . .	9
<i>United States v. Munsingwear, Inc.</i> , 340 U.S. 36 (1950). . . . .	6

Periodicals and Publications:

Jill E. Fisch, <i>Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur</i> , 76 Cornell L. Rev. 589 (1991). . . . .	8
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IN THE

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OCTOBER TERM, 1992

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*v.*

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

BRIEF OF AMICUS CURIAE  
SEARS, ROEBUCK & CO. ON THE MERITS  
IN SUPPORT OF PETITIONER

This *amicus curiae* brief is submitted to support the relief sought by the Petitioner, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi").

INTEREST OF THE AMICUS

The interest of *amicus* Sears, Roebuck & Co. ("Sears"), which sells Izumi-manufactured shavers, arises out of a suit brought against Sears in the U.S. District Court for



the Northern District of Illinois.<sup>1</sup> One of the plaintiffs in that suit, North American Philips Corporation ("Philips"), asserted that Sears had misappropriated the alleged trade dress of Philips' shavers, referred to in Philips' complaint as the shavers' "Design Impression." The same plaintiffs presented essentially the same claims against Izumi's distributor Windmere in the Florida case that gives rise to this appeal.

After the Florida district court entered judgment finding that Philips had no valid trade dress rights in the "Design Impression" of its shavers, the Illinois court dismissed Philips' similar claims against Sears as collaterally estopped by the Florida judgment. When the Federal Circuit vacated the Florida judgment on the basis of a settlement on appeal, however, the Illinois court vacated its prior collateral estoppel decision and reinstated the trade dress claims. Thus, this Court's decision on the propriety of the Federal Circuit's vacatur will significantly affect Sears in the Northern District of Illinois.

### FACTS

In granting summary judgment because of collateral estoppel, the court in Illinois noted that "the *Windmere* court has already determined that Philips' trade dress is not protected" and "twice Philips has litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements." In addition, the Florida district court denied Philips' motions for JNOV and new trial, ruling that "the evidence at trial

substantially showed that [Philips'] trade dress was functional" and, therefore, not protectable. (Joint Appendix, "J.A.", 152a). Although Philips initially took an appeal to the Federal Circuit from the adverse judgment on the trade dress claim (as well as on Windmere's antitrust claim against Philips), Philips eventually withdrew the appeal after paying Windmere \$57 million to settle the case. Then Philips and Windmere asked the Federal Circuit to vacate the district court judgment.

In seeking vacatur, Philips admittedly was trying to eliminate any collateral effect of the Florida decision on the Illinois case. The Federal Circuit acceded to the request, reasoning that since the settlement rendered the dispute between Windmere and Philips moot, the district court judgment had to be vacated under Federal Circuit precedent. The court so held despite the potential reinstatement of the trade dress claim against Sears in Illinois, the cost to Sears and Izumi of defending that claim, and the cost to the judicial system of still another trial of Philips' trade dress allegation.

Those costs are significant and real. After the Federal Circuit ruling, the Illinois court vacated its prior collateral estoppel summary judgment ruling and reinstated the trade dress claims. Thus, the Federal Circuit's vacatur of the Florida judgment paves the way for Philips to argue that it should be given yet another attempt to prove that its rotary shaver design is a protectable trade dress, this time at the expense of Sears, Izumi, the public interest, and judicial efficiency.

<sup>1</sup>U.S. Philips Corp. and North American Philips Corp. v. Sears, Roebuck & Co. and Izumi Seimitsu Kogyo Kabushiki Kaisha, No. 85 C 05366.

## SUMMARY OF THE ARGUMENT

The Federal Circuit's vacatur is improper because it ignored the adverse effects of vacatur on Sears, Izumi, the public interest, and courts in other districts. Vacatur is improper where there are third party interests and "possible, although uncertain" preclusive effects. Here, instead of just "possible" preclusive effects, the Florida judgment had a definite and known preclusive effect: it had collaterally estopped Philips from relitigating its claim against Sears in Illinois.

After the Florida judgment was vacated, the trade dress count was reinstated by the Illinois district court. As this Court recognized in *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 329 (1971), relitigation of issues already decided against the same plaintiff is not in the public interest. When used to eliminate unfavorable precedents, vacating judgments solely because litigants have settled on appeal also conflicts with the public interest.

Sears urges this Court to apply these principles and to reverse the Federal Circuit's vacatur of the Florida judgment.

## ARGUMENT

In granting Philips' and Windmere's request for vacatur, the Federal Circuit defended its vacatur policy, explaining that "we do not hold vacatur must be granted, whatever the circumstances." (Petitioner's Appendix, "Pet.", A6). The circuit court did not, however, consider any circumstances beyond the fact that Philips and Windmere, the two parties to the appeal, had settled their entire dispute. The Federal Circuit totally ignored the adverse consequences of vacatur. Consideration of any

of those consequences leads in this case to a refusal to vacate the final judgment.

In particular, the Federal Circuit improperly disregarded the effect on other litigation. Here, for example, Sears, a party not consulted or involved in the Philips/Windmere settlement, was directly and adversely affected by the vacatur of the Florida district court judgment. It is unfair to Sears — and to Izumi, the manufacturer bearing the costs of repeated litigation against its distributors — to be forced to bear the cost and risk of relitigating issues already decided in Florida.

This Court has also recognized that the public interest also is harmed by subjecting defendants such as Sears to a retrial of claims previously decided in an earlier litigation. *Blonder-Tongue*, 402 U.S. at 329. Judicial resources better devoted to resolving fresh disputes are wasted in retrying issues already resolved in one full and fair adjudication. That public interest is even more significant where the relitigation involves a trade dress already adjudicated to be unprotectable. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964) ("Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all — and in the free exercise of which the consuming public is deeply interested."); *Compco Corp. v. Day-Bright Lighting, Inc.*, 376 U.S. 234, 237-38 (1964).

When parties have attempted to manipulate the judicial system to avoid the preclusive effects of adverse judgments, as Philips has done here, other courts have properly refused to vacate. Thus, in *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982), the court explained:

If the effect of post-judgment settlements were automatically to vacate the trial court's judgment, any litigant dissatisfied with a trial court's findings would be able to have them wiped from the books. "It would be quite destructive to the principle of judicial finality to put such a litigant in a position to destroy the collateral conclusiveness of a judgment by destroying his own right of appeal." 1B Moore's Federal Practice ¶ 0.416[6] at p. 2327 (2d ed. 1982).<sup>2</sup>

The court recognized that the lower court judgment would be entitled to collateral estoppel effect had the appellant not taken the appeal at all. The court then pondered whether the situation should be different from where the appellant appeals and later settles the action thereby securing its dismissal. 686 F.2d at 722. It concluded that the "answer may be different in different cases as equities and hardships vary the balance between the competing values of right to relitigate and finality of judgment." *Id.*

According to the Ninth Circuit, key among the factors to be balanced is the losing party's attempt to eliminate a collateral estoppel effect. In *National Union Fire Insurance Co. v. Seafirst Corp.*, 891 F.2d 762, 765 (9th Cir.

<sup>2</sup>686 F.2d at 721. In so ruling, the Ninth Circuit distinguished mootness due to an appellant's "own act" from mootness caused by developments outside the party's control — the situation in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950) (where a case is rendered moot by happenstance, the court should vacate the judgment below). *Id.* at 722. See also *Karcher v. May*, 484 U.S. 72, 83 (1987) (*Munsingwear* is not applicable unless the controversy becomes moot "due to circumstances unattributable to any of the parties"). Thus, where the controversy becomes moot by an action directly attributable to the parties, such as Philips' and Windmere's settlement, *Munsingwear* is not applicable.

1989), the district court denied the parties' request to vacate after settlement where it "could not avoid suspecting that National Union was motivated by a desire to avoid any *potential* preclusive impact on its other cases arising out of the . . . insurance policy." [Emphasis original].

Like Sears' case here, the "other cases" of *National Union* would have been profoundly affected by the collateral estoppel effect of the district court decision. There, National Union sued Seafirst for procurement of an insurance policy through fraud and misrepresentation, and Seafirst counterclaimed for breach of contract. National Union also brought separate actions against Seafirst's attorney, accountant, and insurance broker. After a jury verdict against National Union on the fraud count, National Union and Seafirst settled, with Seafirst agreeing that National Union could pursue the attorney, accountant, and broker. National Union and Seafirst then jointly moved for vacatur, and the attorney, accountant, and broker intervened.

The Ninth Circuit affirmed the district court's denial of vacatur, concluding that vacatur was not proper under the circumstances "[g]iven the third party interests in this case and the possible, although uncertain status of any preclusive effect." 891 F.2d at 769. It emphasized that "[t]o the extent there may be preclusive effect, National Union should not be able to avoid those effects through settlement and dismissal of the appeal." *Id.*

The practice of routinely vacating judgments on demand following settlement destroys essential functions the civil judicial system serves in generating decisions from litigated disputes. Individuals and businesses rely vitally on the resolution of important factual and other issues — here, that Philips has no right to foreclose others from selling rotary shavers like the Norelco® shaver.



Beyond that, through precedents, both the common law and statutory law is enunciated, shaped, and refined. Individuals, companies, and institutions depend on these precedents to guide their behavior. As one commentator has noted:

A judgment includes elements of legal analysis which may have important consequences in other cases involving uninvolved parties . . . . The common-law legal system in the United States is based on the premise that previously decided cases have a public value in elucidating the law for future actors, as well as for future litigants.

Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 Cornell L. Rev. 589, 629-30 (1991).

When courts allow dissatisfied litigants to vacate judgments simply by settling cases after appealing an adverse ruling, litigants can effectively undermine the reliability of the developed law. Instead of undertaking the burden and risk of seeking to reverse or modify adverse decisions on appeal, litigants such as Philips can pay to have such precedents removed from the books so that they and others similarly situated can relitigate the issues decided against them. Neither the public interest nor the interest of justice is served when the development of the law is disturbed in this manner.

The Seventh Circuit has taken an even stronger position in *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299, 1302 (7th Cir. 1988), by recognizing the potential for manipulation of the judicial system and refusing to allow litigants to treat the work product of courts as their own private property. The court denied vacatur after the parties settled, reasoning:

When a clash between genuine adversaries produces a precedent, however, the judicial system ought not allow the social value of that precedent, created at cost to the public and other litigants, to be a bargaining chip in the process of settlement. The precedent, a public act of a public official, is not the parties' property. . . . To the extent an opinion permits the invocation of [collateral estoppel under] *Parklane* [*Hosiery Co. v. Shore*, 439 U.S. 322 (1979)], it may have great value to strangers — a value that one or another party to today's case may try to appropriate in the settlement, but which is not theirs to sell. If parties want to avoid stare decisis and preclusive effects, they need only settle before the district court renders a decision, an outcome our approach encourages.

*Accord In re United States*, 927 F.2d 626, 628 (D.C. Cir. 1991) (finding the reasoning of *Memorial Hospital* persuasive).

The case for denial of vacatur is particularly compelling here. Far from the "possible, although uncertain status of any preclusive effect" of *National Union*, the Florida district court judgment had a definite and known preclusive effect: the Florida judgment had collaterally estopped Philips from relitigating its trade dress claim against Sears in Illinois. Indeed, the Illinois court's decision expressly relied on the two prior jury verdicts:

Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law, the court in *Windmere* found that Philips' trade dress was not protected. [Citations omitted].

(Pet. A29).

The Federal Circuit's vacatur of the Florida District Court's decision permits Philips to attempt for yet a third time to demonstrate that it has protectable rights in the trade dress of its shavers. In seeking to relitigate this issue, Philips exploits the judicial system. By its actions, Philips treats the Florida decision as an advisory opinion from which it can correct its mistakes and finally succeed on its trade dress claim. The time and resources of the courts are too precious to be wasted in this manner.

Sears should not be forced to relitigate Philips' claims, and the Illinois District Court should be spared from hearing them. Accordingly, Sears urges this Court to consider the adverse effects of vacatur on Sears, Izumi, and the public interest, and to hold that vacatur is improper in the present circumstances.

#### CONCLUSION

For these reasons, this Court should reverse the Federal Circuit's decision granting vacatur of the Florida judgment.

Respectfully submitted,

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April 22, 1993

(7)  
No. 92-1123

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IN THE  
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*Petitioner,*

—v.—

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CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN and  
WINDMERE CORPORATION,

*Respondents.*

ON WRIT OF CERTIORARI TO THE  
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

**OPPOSITION OF PHILIPS RESPONDENTS TO MOTION OF  
SEARS, ROEBUCK & CO. TO FILE AN AMICUS CURIAE BRIEF**

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3 PP



IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1993

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA  
*Petitioner,*

v.

U.S. PHILIPS CORPORATION, NORTH  
AMERICAN PHILIPS CORPORATION,  
N.V. PHILIPS GLOEILAMPENFABRIEKEN,  
and  
WINDMERE CORPORATION,  
*Respondents.*

---

ON WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT

---

OPPOSITION OF PHILIPS RESPONDENTS TO  
MOTION OF SEARS, ROEBUCK & CO. TO FILE  
AN AMICUS CURIAE BRIEF

The Philips Respondents<sup>1</sup> oppose the motion of Sears, Roebuck & Company ("Sears"), filed April 22, 1993, for leave to file a brief *amicus curiae* in support of Petitioner, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi").

Although Sears now claims that it has "an immediate and substantial interest in this Court's reversal of the Federal Circuit decision" (Sears Mot. at ii), it made no effort to appear and assert its "interest" in the Federal Circuit or to

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<sup>1</sup> U.S. Philips Corporation, North American Philips Corporation and N.V. Philips Gloeilampenfabrieken, hereinafter referred to as "Philips".

intervene in that appeal. Its Illinois counsel,<sup>2</sup> who was also Izumi's counsel, made a deliberate decision to do nothing.

Sears' only possible "interest" in the proceeding before this Court arises from its status as a party to the Illinois action. Izumi's Brief on the Merits contains a comprehensive discussion of how vacatur might impact the Illinois action, and Sears has not raised any other issues in its brief that have not already been raised by Izumi.

Moreover, Sears does not claim and there is no reason to believe that its indemnitor, Izumi, is not adequately arguing Sears' position or that "facts or questions of law" exist that have not been "presented by the parties" (Sup. Ct. R. 37.4).

The motion of Sears to file an *amicus* brief should be denied.

Respectfully submitted,

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May 11, 1993

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<sup>2</sup> Counsel of record for Sears in this Court was the initial counsel for Sears and Izumi in the related Northern District of Illinois litigation. Sears and Izumi are now and have been since 1989 represented in Illinois by Edward L. Foote, Esq., who was until March 1992 also counsel for Windmere in the Southern District of Florida litigation.

No. 92-1123

Supreme Court, U.S.  
FILED

MAY 24 1993

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In The  
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October Term, 1992

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*  
v.

U.S. PHILIPS CORP., NORTH AMERICAN PHILIPS  
CORP., N.V., PHILIPS GLOEILAMPENFABRIEKEN  
and WINDMERE CORPORATION,  
*Respondents.*

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On Writ Of Certiorari  
To The United States Court Of Appeals  
For The Federal Circuit

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BRIEF OF THE PRODUCT LIABILITY ADVISORY  
COUNCIL, INC. AS *AMICUS CURIAE*  
IN SUPPORT OF RESPONDENTS

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## TABLE OF CONTENTS

	Page
IDENTITY AND INTEREST OF AMICUS CURIAE .	2
SUMMARY OF ARGUMENT.....	5
I. THE APPROACH FAVORED BY PETITIONER AND ITS <i>AMICI</i> IGNORES THE CONSTITU- TIONAL LIMITATION OF THE JURISDICTION OF FEDERAL COURTS.....	8
II. CONTINUED SMOOTH FUNCTIONING OF THE SETTLEMENT PROCESS REQUIRES THAT COURTS PROMOTE IT, NOT THWART IT ON THE BASIS OF THE IMAGINED INTERESTS OF HYPOTHETICAL FUTURE LITIGANTS .....	9
CONCLUSION .....	15

## TABLE OF AUTHORITIES

## Page

## CASES

<i>Chambers v. Nasco, Inc.</i> , 111 S. Ct. 2123 (1991) .....	11
<i>Clarendon, Ltd. v. Nu-West Industries, Inc.</i> , 936 F.2d 127 (3d Cir. 1991) .....	6
<i>Cooter &amp; Gell v. Hartmarx Corp.</i> , 110 S. Ct. 2447 (1990) .....	11
<i>Green County, Ky. v. Quinlan</i> , 211 U.S. 582 (1909) .....	3
<i>Hewitt v. Helms</i> , 482 U.S. 755 (1987) .....	8
<i>Link v. Wabash Railroad Co.</i> , 370 U.S. 626 (1961) .....	11
<i>Matter of Memorial Hosp. of Iowa County, Inc.</i> , 862 F.2d 1299 (7th Cir. 1988) .....	2, 4, 6, 8, 10
<i>National Union Fire Ins. Co. v. Seafirst Corp.</i> , 891 F.2d 762 (9th Cir. 1989) .....	6
<i>U.S. Philips Corp. v. Windmere Corp.</i> , 971 F.2d 728 (Fed. Cir. 1992) .....	5
<i>In re United States</i> , 927 F.2d 626 (D.C. Cir. 1991) .....	6

## MISCELLANEOUS

13A Wright, Miller & Cooper, <i>Federal Practice &amp; Procedure</i> , § 3533.10 (2d ed. 1984) .....	5
28 U.S.C. § 2106 .....	3, 5
Act 162, State of Michigan Public Acts of 1983 .....	2
Brilmayer, "The Jurisprudence of Article III: Perspective on the 'Case or Controversy' Requirement," 93 <i>Harv. L. Rev.</i> 297 (1979) .....	8

## TABLE OF AUTHORITIES - Continued

## Page

Fisch, "Rewriting History: The Propriety of Eradicating Prior Decisional Law through Settlement and Vacatur," 76 <i>Cornell L. Rev.</i> 589 (1991) .....	6, 8
Frank, <i>American Law: The Case for Radical Reform</i> (Macmillan 1969) .....	14
George Herbert (1593-1633), "Outlandish Proverbs," (1640) #264 in <i>The Works of George Herbert</i> (Oxford: Clarendon Press, 1945) .....	10
Thomas Fuller (1654-1734), <i>Gnomologia</i> , 1732 .....	10
Supreme Court Rule 36 .....	1
W. James, <i>The Will To Believe</i> , an address to the philosophical clubs of Yale and Brown Universities, published in the <i>New World</i> , June 1896, reprinted under that title (Longmans, Green & Co. 1919) .....	13
Zeller, "Avoiding Issue Presclusion by Settlement Conditioned upon the Vacatur of Entered Judgments," 96 <i>Yale L.J.</i> 860 (1987) .....	12

No. 92-1123

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In The  
**Supreme Court of the United States**  
October Term, 1992

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IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,  
*Petitioner,*  
v.

U.S. PHILIPS CORP., NORTH AMERICAN PHILIPS  
CORP., N.V., PHILIPS GLOEILAMPENFABRIEKEN  
and WINDMERE CORPORATION,  
*Respondents.*

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On Writ Of Certiorari  
To The United States Court Of Appeals  
For The Federal Circuit

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BRIEF OF THE PRODUCT LIABILITY ADVISORY  
COUNCIL, INC. AS *AMICUS CURIAE*  
IN SUPPORT OF RESPONDENTS

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Pursuant to Rule 36 of the Rules of this Court, the Product Liability Advisory, Inc. ("PLAC") respectfully submits this brief as *amicus curiae* in support of the Respondents.<sup>1</sup>

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<sup>1</sup> Counsel for all parties have consented to the filing of this brief. Letters of consent have been filed with the Clerk.



The *amicus curiae* fully endorses the positions urged by the Respondents in their brief.

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### IDENTITY AND INTEREST OF AMICUS CURIAE

The Product Liability Advisory Council, Inc. ("PLAC") is a non-profit membership corporation formed in June, 1983, pursuant to act 162, State of Michigan Public Acts of 1983.<sup>2</sup> Its principal purpose is the submission of appellate briefs, as friend of the Court, in cases raising significant issues affecting substantive and procedural law in the area of product liability.

PLAC members are all daily involved in litigation in American courts. As such participants in the work of the courts, they have a direct and substantial interest in preventing any serious inroads on the autonomy of the parties over the contractual terms of settlement. PLAC believes when the terms of such settlement call for the parties to seek vacatur, it is within the discretionary power of the reviewing court to grant it. As Judge Easterbrook conceded in *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1302 (7th Cir. 1988): "True, litigation is conducted to resolve the parties' controversies; precedent is a byproduct of resolving disputes rather than the *raison d'être* of the judicial system." PLAC is vitally concerned with the impediment to settlement of litigation, and the additional work required of our courts, if this Court should rule, as Petitioner urges, that this Court's precedents do not provide authority for the

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<sup>2</sup> The members of PLAC are listed in an Appendix hereto.

"practice of routinely vacating district court judgments at the request of settling parties."<sup>3</sup> Such a ruling would seriously interfere with the discretion conferred on the Courts of Appeal under 28 U.S.C. § 2106. PLAC is even more concerned about the consequences for our courts should this Court, as urged by *amicus* Trial Lawyers for Public Justice adopt "a rule requiring courts to deny post-settlement motions for vacatur unless the parties demonstrate that the judgment is infirm or that retention of the judgment is otherwise unfair for reasons not of the parties' making."<sup>4</sup> Such a rule would turn upside down all the policies promoting settlement of civil disputes and contradict this Court's wisdom that, "[C]ourts cannot make for the parties better agreements than they themselves have been satisfied to make." *Green County, Ky. v. Quinlan*, 211 U.S. 582, 596 (1909). Further, such a rule would require a reviewing court to withhold approval of a contract of settlement while the court engaged in the additional and feckless task of attempting to determine if somebody, somewhere might be prejudiced by recognition of such agreement.

PLAC respectfully suggests that the presentations thus far made in this case have not adequately addressed the more far-ranging pernicious effects that would necessarily follow from a decision in favor of Petitioner. Not only do the arguments in favor of Petitioner contradict all the policies inherent in the law promoting settlement of

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<sup>3</sup> Petitioner's Brief on the Merits, p. 10.

<sup>4</sup> Brief of Trial Lawyers for Public Judgment, P. C. (hereafter "TLPJ brief"), p. 1. The other *amicus* supporting Petitioner is *Sears, Roebuck & Co.*, referred to hereafter as "Sears."

disputes but their adoption would also impose a new duty on reviewing courts: to consider the possible effects of settlements on those who are not even in front of the court.

Judges must have at heart the interests of other litigants in future cases, and hold them equal in weight with the interests of today's.<sup>5</sup>

It would seem a daunting task when a court undertakes to give consideration equal to that accorded the actual parties to litigation to "the interests of other litigants in future cases." When a court reaches for its crystal ball, which "other litigants in future cases" is it to consider? Because the vagaries of litigation frequently mean that a party on one side of an issue today may well be on the other tomorrow, certainly a court must be given some guidance in the speculative task of determining what "other litigants in future cases" it is to deem worthy of attention equal to that it gives the actual parties to the litigation. Overburdened as our courts are, any impediments to the process that permits settlements to dispose of much of their workload, much less additional duties imposed on courts in the course of approving what have been routine settlements, can only be destructive of our system of justice as we know it. The phantom public policy grounds urged as justifying this radical revision of the time-honored policies promoting settlements not only do not exist; they also misconceive the fundamental purpose of civil litigation. Consequently, PLAC is vitally

<sup>5</sup> *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1303 (7th Cir. 1988); see also, TLPJ brief, p. 4.

concerned with preserving the policies promoting settlements and the discretion conferred on our reviewing courts under 28 U.S.C. § 2106.

## SUMMARY OF ARGUMENT

The sole legitimate issue is whether the court below abused its discretion in denying Petitioner's opposition to the parties' joint motion to dismiss and vacate. *U.S. Philips Corp. v. Windmere Corp.*, 971 F.2d 728 (Fed. Cir. 1992). Putting aside the question of Petitioner's standing, if any, to raise the issue, what the court below did was not unusual. In the exercise of their discretionary power under 28 U.S.C. § 2106, federal reviewing courts, generally, will routinely vacate judgments when the parties settle. 13A Wright, Miller & Cooper, *Federal Practice & Procedure*, § 3533.10, at 432 (2d ed. 1984). As the court below said, the practice is not absolute.

Although in the Federal Circuit vacatur is the general rule, we do not hold that vacatur must always be granted, whatever the circumstances.

971 F.2d at 731.

Nonetheless, in recent years, according to Prof. Fisch, three different approaches have developed to the issue of whether vacatur sought by the parties as a part of settlement is proper:

The Second Circuit approach, reflected in the *Nestle [v. Chester's Market, Inc.]*, 756 F.2d 280 (2d Cir. 1985)] decision, accepts the importance of encouraging settlement and, accordingly, adopts a rule of law in which settling litigants are entitled

to vacatur of the trial court's judgment virtually as a matter of right. The Seventh Circuit<sup>6</sup> concludes that the public interest in the finality of judgments outweighs the parties' private interests and determines that motions to vacate should generally be denied. The Ninth Circuit adopts a case-by-case balancing approach in which the courts consider the implications of the analysis on the specific facts of a particular case.<sup>7</sup>

Fisch, "Rewriting History: The Propriety of Eradicating Prior Decisional Law through Settlement and Vacatur, 76 *Cornell L. Rev.* 589, 592 (1991).

There is a division between Petitioner and its *amici* on the approach they want this Court to take. Petitioner implies the Federal Circuit abused its discretion, arguing that this Court should reverse because the court below did not properly balance the factors it should have considered; *amicus* TLPJ urges this Court to adopt a rule that would embody a presumption against vacatur when a case is settled pending appeal; and *amicus* Sears apparently also believes the court below abused its discretion, arguing that its order was improper "under the circumstances."<sup>8</sup> But Petitioner and its *amici* share a common

<sup>6</sup> *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988); followed in *Clarendon, Ltd. v. Nu-West Industries, Inc.*, 936 F.2d 127 (3d Cir. 1991) and *In re United States*, 927 F.2d 626 (D.C. Cir. 1991).

<sup>7</sup> *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989).

<sup>8</sup> Petitioner's Brief on the Merits, p. 35; TLPJ brief, p. 14; Sears' brief, p. 10.

belief that what was most objectionable about what the court below did is that the practice is *routine*.<sup>9</sup> It may well be that it is that aspect of the practice that most recommends it. PLAC respectfully submits that the *costs* of changing the *routine* practice far outweigh the costs, in large measure imaginary, Petitioner and its *amici* conceive attach to the present practice.

<sup>9</sup> "In sum, the circuit courts should not *routinely* grant motions to vacate on settlement, and the Federal Circuit should not have done so here." Petitioner's Brief on the Merits, p. 35 (emphasis added). "In fact, however, *routine* vacatur involves significant public costs. Moreover, the availability of *routine* vacatur discourages rather than encourages settlements by the litigants." TLPJ brief, p. 2 (emphasis added). "The Court has granted certiorari to consider whether courts of appeal should *routinely* vacate lower court judgments when cases are settled while on appeal." Sears, Roebuck & Co. brief, pp. i and ii (emphasis added).



**I. THE APPROACH FAVORED BY PETITIONER AND ITS AMICI IGNORES THE CONSTITUTIONAL LIMITATION OF THE JURISDICTION OF FEDERAL COURTS.**

On reflection and careful study it can be seen that the arguments for radical revision of the present system permitting vacatur on settlement in the discretion of a reviewing court are based on Judge Easterbrook's premise:

Judges must have at heart the interests of other litigants in future cases, and hold them equal in weight with the interests of today's.

*Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1303 (7th Cir. 1988).<sup>10</sup>

Admirable as such sentiments might seem in the abstract, they pose serious questions about the propriety of injecting such a consideration into the decision of a pending case. Our traditions embrace the value of a careful and discriminating adherence to the "case or controversy" limitation of Article III to the United States Constitution and avoidance of advisory opinions not moored to the facts of an immediate dispute.<sup>11</sup> As Justice Scalia wrote in *Hewitt v. Helms*, 482 U.S. 755, 761 (1987): "The real value of the judicial pronouncement – what

<sup>10</sup> See also, Fisch, "Rewriting History: The Propriety of Eradicating Prior Decisional Law through Settlement and Vacatur," 76 *Cornell L. Rev.* 589, 620 (1991) and TLPJ brief, p. 4.

<sup>11</sup> See, Brilmayer, "The Jurisprudence of Article III: Perspective on the 'Case or Controversy' Requirement," 93 *Harv. L. Rev.* 297 (1979).

makes it a proper judicial resolution of a 'case or controversy' rather than an advisory opinion – is in the settling of some dispute *which affects the behavior of the defendant towards the plaintiff.*" (emphasis in original). It seems appropriate, therefore, to consider whether the decision of an issue on the basis of the hypothetical interest of a hypothetical party – holding "the interests of other litigants in future cases . . . equal in weight with the interests of today's" – violates this limitation.<sup>12</sup>

**II. CONTINUED SMOOTH FUNCTIONING OF THE SETTLEMENT PROCESS REQUIRES THAT COURTS PROMOTE IT, NOT THWART IT ON THE BASIS OF THE IMAGINED INTERESTS OF HYPOTHETICAL FUTURE LITIGANTS.**

It does not seem to be overstatement to suggest that the policy of the law promoting settlement of disputes is necessary to the survival of our system of courts. From an early time, the law has favored even the most imperfect settlement to continued pursuit of a controversy in

<sup>12</sup> *Amicus* TLPJ concedes that, "It is not possible to conduct after-the-fact research to ascertain whether courts have vacated valuable decisions; when a decision is vacated prior to the publication of a written opinion, there is often nothing left to inform the public what was decided." TLPJ brief, p. 4, footnote 3.

court.<sup>13</sup> There is no discernible policy in the law favoring early over later settlements.<sup>14</sup>

It is hard to be against settlement. Any disposition that the parties to the litigation unanimously endorse has much to be said for it – it produces peace for the parties and frees scarce judicial time to attend to litigants who need it. A settlement is the parties' business. They may compromise just as they may reach any other (lawful) contract.

*Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299, 1302 (7th Cir. 1988).<sup>15</sup>

On this all seem to agree. The problem comes when the parties' bargain calls for judicial action. In this respect, what the court below did is not unusual and does

<sup>13</sup> "An ill agreement is better than a good judgment." George Herbert (1593-1633), "Outlandish Proverbs," (1640) #264 in *The Works of George Herbert* (Oxford: Clarendon Press, 1945), p. 329. "An indifferent agreement is better than carrying a cause at law." Thomas Fuller (1654-1734), *Gnomologia*, 1732, no. 637.

<sup>14</sup> "Although settlement and vacatur put an end to the particular dispute before the court, the systematic practice of granting motions to vacate when a case is settled on appeal encourages parties to delay settlement until after trial. Accordingly, the availability of vacatur actually discourages early settlement and wastes judicial resources in the process." TLPJ brief, p. 8. By such specious reasoning, all settlements that await the result of a trial waste judicial resources. We do not think so. Settlement, early or late, is a positive result.

<sup>15</sup> It should be noted that the vacatur sought in this case would also have eradicated a finding of contempt against one of the parties, something which, understandably, the court thought beyond the legitimate power of the parties.

not seem unreasonable. Even though it questioned Petitioner's standing to raise the issue, it examined the merits of Petitioner's opposition to the parties' request for vacatur and, in the exercise of its discretion, denied Petitioner's motion. Now one can disagree with the view of the merits taken by the court below – whether it properly balanced the factors it was obliged to consider and whether its decision was proper "under the circumstances" –, but it hardly seems that such disagreement rises to the level of establishing that the court below abused its discretion. It was fully informed of the Petitioner's interest in opposing vacatur but, nonetheless, decided to grant vacatur. Although neither Petitioner nor its *amici* use the term "abuse of discretion," that is, we believe, the standard this Court will apply to judge what happened. See, *Link v. Wabash Railroad Co.*, 370 U.S. 626, 633 (1961); *Chambers v. Nasco, Inc.*, 111 S. Ct. 2123, 2138 (1991). As Justice O'Connor wrote in *Cooter & Gell v. Hartmarx Corp.*, 110 S. Ct. 2447, 2460 (1990):

[S]ome variation in the application of a standard based on reasonableness is inevitable. 'Fact-bound resolutions cannot be made uniform, through appellate review de novo or otherwise.' *Mars Steel Corp. v. Continental Bank N.A.*, 880 F.2d at 936; see also Shaffer & Sandler 14-15. An appellate court's review of whether a legal position was reasonable or plausible enough under the circumstances is unlikely to establish clear guidelines for lower courts, nor will it clarify the underlying principles of law. See *Pierce, supra*, 487 U.S. at 560-561, 108 S. Ct., at 2547-2548.

As one author on the subject has written:

Under an adversary system which produces many independent claims containing identical issues, rules of issue preclusion achieve a compromise between party autonomy and the judicial value of finality of judgments, economy, legitimacy, and consistency.<sup>16</sup>

But establishing that compromise, given the infinite variety of litigation confronting our courts, is a uniquely judicial task. Even accepting for purposes of argument that settlement conditioned on vacatur is to avoid future preclusion, whether this is permissible in a particular instance is the discretionary call of an informed court.<sup>17</sup> That a court addresses this question with a presumption in favor of permitting settlement on terms agreed to by the parties is consistent with all our law. If, as the court below said, the court is given sufficient, concrete reason for preferring to allow the rules of preclusion to operate, it can do so.

That this issue has reached this Court raises serious questions about the manner in which litigation has been transformed in recent years. It is in the very nature of

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<sup>16</sup> Zeller, "Avoiding Issue Preclusion by Settlement Conditioned upon the Vacatur of Entered Judgments," 96 *Yale L. J.* 860, 860 (1987).

<sup>17</sup> *Amicus* TLPJ seems to believe that the only litigants who are induced to settle on condition that vacatur eliminates the threat of preclusion are large institutions. We do not believe this important issue should be decided on such an "us" versus "them" basis. Certainly it does not impose any significant burden on the imagination to realize that such a result might also induce settlement by a "small" litigant.

litigation that it is not a process assured of producing enduring truths. We proceed to get the best resolution we can of a conflict on the basis of whatever evidence is currently available. Next week a key witness may return to our shores. Next month examination of files prior to their destruction may turn up a critically important document. No matter. The essential point has always been to get cases decided *now*. Almost 100 years ago, William James explained:

Law courts, indeed, have to decide on the best evidence attainable for the moment, because a judge's duty is to make law as well as ascertain it, and (as a learned judge once said to me) few cases are worth spending much time over: the great thing is to have them decided on *any* acceptable principle, and got out of the way.<sup>18</sup>

Consequently, PLAC urges that this Court leave things as they have been.

The question of whether our reviewing courts should grant vacatur on motion of all *actual parties* is addressed to the court's sound discretion and in considering it courts operate with a presumption in favor of settlement. If somebody conceives that such a course will prejudice him or her, the mechanism for intervention is available under the rules and objections, concrete objections, will

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<sup>18</sup> W. James, *The Will To Believe*, an address to the philosophical clubs of Yale and Brown Universities, published in the *New World*, June 1896, reprinted under that title (Longmans, Green & Co. 1919), 1, at p. 20. Because of its consistency with his philosophy and in light of his life-long friendship with James, Oliver W. Holmes, Jr. it would seem, is a logical candidate for the "learned judge."



be heard. The alternative, advocated by *amicus* TLPJ and the Seventh Circuit, is to involve courts in another "decision point" involving the highly speculative business of trying to determine the effect of the court's precedent on parties not before the court. A quarter of a century ago, John P. Frank delivered a series of lectures with the theme that, "the entire body of the law should be reviewed to reduce and simplify decision points."<sup>19</sup> He explained:

What is happening in the course of the law is an almost endless increase in the number of decision points, usually without much regard to the consequences the increase will have on the legal system. If I may use a fanciful illustration, think of the elephant in a circus, standing with feet close together upon a small supporting pedestal. Let the elephant be the collection of decision points, and the pedestal the legal system that has to make the decisions. What happens is that the elephant grows and grows and grows as he absorbs more and more decision points. Occasionally some are taken away, as for example if my hypothetical state should eliminate the process server requirement we have discussed, but the general trend is to enlarge. The enlargement comes in two primary ways. First, the law itself grows. Second, there are more people presenting matters that need to be decided. The combined effect is that at some point, the weight of the elephant collapses the pedestal.<sup>20</sup>

<sup>19</sup> Frank, *American Law: The Case for Radical Reform* (Macmillan 1969), p. 65.

<sup>20</sup> *Ibid.*, at pp. 68-69.

*Amicus* TLPJ asks for an additional decision point to assure that unknown hypothetical litigants are not deprived of the possible preclusive effect of a judgment all parties ask to have set aside:

[T]he courts should review motions to vacate with the presumption that vacatur will not be granted at the request of the parties. Absent a showing that the underlying judgment is infirm, courts should be directed to deny motions to vacate a case that has been settled pending appeal.<sup>21</sup>

The proposition raises more questions than it could possibly answer. Does this proposition embody cases settled prior to any opinion by a reviewing court? Does it embrace cases settled before time for a petition for rehearing has elapsed? Does it apply to cases while a petition for certiorari is pending? Should this proposition apply only when identifiable other litigants have appeared to oppose vacatur? If this Court adopts the TLPJ proposition, it is altogether likely that the questions about attempts to settle cases pending appeal have only started to appear on its docket.

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## CONCLUSION

For the foregoing reasons, PLAC respectfully urges this Court to reaffirm the principle that a motion for vacatur in a pending appeal is addressed to the sound discretion of the reviewing court, which will consider it

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<sup>21</sup> TLPJ brief, p. 14.

with a presumption favoring settlement of disputes but aware that it must not exercise its discretion to work a demonstrable injustice.

Respectfully submitted,

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## **APPENDIX**

### **PRODUCT LIABILITY ADVISORY COUNCIL, INC. Corporate Members**

American Automobile Manufacturers Association  
American Home Products Corp.  
American Telephone and Telegraph  
Amoco Corporation  
Amsted Industries Incorporated  
Andersen Corporation  
Anheuser-Busch Companies, Inc.  
Association of International Automobile  
Manufacturers, Inc.  
Atlantic Richfield Company  
Beech Aircraft Corp.  
The Boeing Company  
Bridgestone/Firestone, Inc.  
British Aerospace  
The Budd Company  
Burroughs Wellcome Company  
Caterpillar, Inc.  
Chrysler Corporation  
Clark Material Handling Company  
The Coca-Cola Company  
The Coleman Company  
Dana Corporation  
Deere & Company  
Defense Research Institute  
Digital Equipment Corporation  
Dow Chemical Company  
Eaton Corporation  
Eli Lilly and Company  
Emerson Electric Company  
Exxon Corporation  
FMC Corporation  
Federal-Mogul Corporation  
Ford Motor Company

Freightliner  
 The Gates Corporation  
 General Electric Company  
 General Motors Corporation  
 Goodyear Tire & Rubber Company  
 Great Dane Trailers, Inc.  
 Harnischfeger Industries, Inc.  
 Hoechst Celanese  
 Honda North America, Inc.  
 Hyundai Motor America  
 Ingersoll-Rand Company  
 International Paper Company  
 Isuzu Motors America, Inc.  
 Johnson Controls, Inc.  
 Joy Technologies, Inc.  
 Kawasaki Motors Corp., U.S.A.  
 Kraft General Foods, Inc.  
 Mazda Motor of America  
 Melroe Company  
 Mercedes-Benz of North America, Inc.  
 Merck & Company, Inc.  
 Michelin Tire Corporation  
 Miller Brewing Company  
 Minnesota Mining and Manufacturing Company  
 Mitsubishi Motor Sales of America  
 Monsanto Company  
 O.F. Mossberg & Sons, Inc.  
 Navistar International Transportation Corp.  
 New United Motor Manufacturing, Inc.  
 Nissan Motor Corporation, U.S.A.  
 Otis Elevator Company  
 PACCAR, Inc.  
 PepsiCo  
 Pfizer Inc.  
 Philip Morris Companies Inc.  
 Piper Aircraft Corporation  
 Pirelli Armstrong Tire Corporation

Playtex Family Products Corp., Inc.  
 Porsche Cars North America, Inc.  
 Procter & Gamble Company  
 RJR Tobacco Co.  
 Rockwell International  
 Schindler Elevator Corporation  
 Sears, Roebuck and Company  
 Sherwood Division of Harsco Co.  
 Snap-on Tools Corporation  
 Squibb Corporation  
 Sturm, Ruger and Company  
 Subaru of America, Inc.  
 Sunstrand Corporation  
 The Toro Company  
 Toyota Motors Sales, U.S.A., Inc.  
 TRW Inc.  
 Union Carbide Corporation  
 The Uniroyal Goodrich Tire Co.  
 Unocal Corporation  
 The Upjohn Company  
 U.S. Tobacco  
 Volkswagen of America, Inc.  
 Volvo North America Corporation  
 Vulcan Materials  
 Jorvis B. Webb Company  
 Whirlpool Corporation  
 White Consolidated Industries, Inc.  
 Yamaha Motor Corporation, U.S.A.

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